

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

MEDIATEK INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
WITH
REPORT OF INDEPENDENT ACCOUNTANTS
FOR THE THREE MONTHS ENDED
MARCH 31, 2019 AND 2018

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.

English Translation of a Report Originally Issued in Chinese

Review Report of Independent Accountants

To the Board of Directors and Shareholders
of MediaTek Inc.

Introduction

We have reviewed the accompanying consolidated balance sheets of MediaTek Inc. and its subsidiaries as of March 31, 2019 and 2018, the related consolidated statements of comprehensive income, changes in equity and cash flows for the three-month periods ended March 31, 2019 and 2018, and notes to the consolidated financial statements, including the summary of significant accounting policies (together “the consolidated financial statements”). Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard No. 34, “Interim Financial Reporting” as endorsed and became effective by Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on these consolidated financial statements based on our reviews.

Scope of Review

We conducted our reviews in accordance with Statement of Auditing Standards No. 65, “Review of Financial Information Performed by the Independent Auditor of the Entity” of the Republic of China. A review of consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of MediaTek Inc. and its subsidiaries as at March 31, 2019 and 2018, their consolidated financial performance and cash flows for the three-month periods ended March 31, 2019 and 2018, in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard No. 34, “Interim Financial Reporting” as endorsed and became effective by Financial Supervisory Commission of the Republic of China.

Kuo, Shao-Pin

Fuh, Wen-Fun

Ernst & Young, Taiwan
April 30, 2019

Notice to Readers

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

Accordingly, the accompanying financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice. As the financial statements are the responsibility of the management, Ernst & Young cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of March 31, 2019, December 31, 2018, and March 31, 2018

(March 31, 2019 and 2018 are unaudited)

(Amounts in thousands of New Taiwan Dollars)

ASSETS	Notes	March 31, 2019	%	December 31, 2018	%	March 31, 2018 (Adjusted)	%
Current assets							
Cash and cash equivalents	6(1)	\$ 151,478,894	36	\$ 143,170,245	36	\$ 140,616,960	34
Financial assets at fair value through profit or loss-current	6(2)	5,749,351	1	5,026,696	1	3,821,417	1
Financial assets at fair value through other comprehensive income-current	6(3)	27,739,704	7	13,468,075	3	20,772,004	5
Financial assets measured at amortized cost-current	6(4), 8	2,617,582	1	3,005,650	1	24,142	-
Notes receivables, net	6(22)	1,607	-	2,950	-	1,607	-
Trade receivables, net	6(5), 6(22)	25,303,039	6	28,929,826	7	25,837,165	6
Trade receivables from related parties, net	6(5), 6(22),7	7,691	-	6,605	-	-	-
Other receivables	6(6)	7,053,755	2	8,229,716	2	11,058,050	3
Current tax assets	4, 6(29)	849,458	-	910,984	-	874,495	-
Inventories, net	6(7)	30,121,761	7	30,979,767	8	33,319,611	8
Prepayments	6(8)	1,745,271	1	1,523,281	1	1,724,041	-
Other current assets		836,332	-	783,729	-	2,239,741	1
Total current assets		253,504,445	61	236,037,524	59	240,289,233	58
Non-current assets							
Financial assets at fair value through profit or loss-noncurrent	6(2)	5,834,586	1	3,986,224	1	4,530,535	1
Financial assets at fair value through other comprehensive income-noncurrent	6(3)	25,596,709	6	32,083,500	8	28,773,285	7
Financial assets measured at amortized cost-noncurrent	6(4), 8	581,250	-	480,106	-	6,433,930	2
Investments accounted for using the equity method	6(9)	13,281,747	3	12,711,958	3	14,990,039	4
Property, plant and equipment	6(10), 8	38,284,295	9	37,603,586	10	37,890,978	9
Right-of-use assets	4, 6(23)	3,028,598	1	-	-	-	-
Investment property, net	6(11), 8	1,001,334	-	917,343	-	875,215	-
Intangible assets	6(12), 6(13)	72,929,413	18	73,788,598	18	75,286,346	18
Deferred tax assets	4, 6(29)	4,374,692	1	4,776,271	1	4,277,479	1
Refundable deposits		301,360	-	288,449	-	273,800	-
Net defined benefit assets-noncurrent	4, 6(18)	14,825	-	14,825	-	2,102	-
Long-term prepaid rent		-	-	147,660	-	155,892	-
Total non-current assets		165,228,809	39	166,798,520	41	173,489,601	42
Total assets		\$ 418,733,254	100	\$ 402,836,044	100	\$ 413,778,834	100

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

Chairman : Ming-Kai Tsai

President : Lih-Shyng Tsai

Chief Financial Officer : David Ku

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of March 31, 2019, December 31, 2018, and March 31, 2018

(March 31, 2019 and 2018 are unaudited)

(Amounts in thousands of New Taiwan Dollars)

LIABILITIES AND EQUITY	Notes	March 31, 2019	%	December 31, 2018	%	March 31, 2018 (Adjusted)	%
Current liabilities							
Short-term borrowings	6(14), 8	\$ 58,554,743	14	\$ 51,056,528	13	\$ 62,700,469	15
Financial liabilities at fair value through profit or loss-current	6(2)	5,904	-	4,932	-	325	-
Contract liabilities-current	6(21)	2,337,198	-	1,508,874	-	1,255,310	-
Trade payables		19,322,810	5	16,982,909	4	27,958,315	7
Trade payables to related parties	7	651,814	-	704,262	-	622,484	-
Other payables	6(15)	24,346,375	6	30,481,779	8	26,371,884	7
Other payables to related parties	7	4,524	-	459	-	-	-
Current tax liabilities	4, 5, 6(29)	2,198,402	1	2,904,187	1	2,676,800	1
Lease liabilities-current	4, 6(23)	433,379	-	-	-	-	-
Other current liabilities	6(16)	13,232,328	3	17,512,343	4	11,893,402	3
Current portion of long-term liabilities	6(17), 8	430,713	-	1,435,806	1	36,850	-
Total current liabilities		121,518,190	29	122,592,079	31	133,515,839	33
Non-current liabilities							
Long-term borrowings	6(17), 8	230,294	-	244,104	-	336,192	-
Long-term payables		605,546	-	681,175	-	837,343	-
Net defined benefit liabilities-noncurrent	4, 6(18)	817,026	-	819,631	-	659,197	-
Deposits received		580,933	-	188,534	-	181,113	-
Deferred tax liabilities	4, 5, 6(29)	4,042,597	1	2,973,703	1	3,213,259	1
Lease liabilities-noncurrent	4, 6(23)	2,527,781	1	-	-	-	-
Non-current liabilities-others		1,107,585	-	1,010,911	-	1,020,922	-
Total non-current liabilities		9,911,762	2	5,918,058	1	6,248,026	1
Total liabilities		131,429,952	31	128,510,137	32	139,763,865	34
Equity attributable to owners of the parent							
Share capital	6(19)						
Common stock		15,936,758	4	15,915,070	4	15,814,371	4
Capital collected in advance		-	-	-	-	176	-
Capital surplus	6(19), 6(20), 6(31)	85,572,695	21	85,237,214	21	88,207,076	21
Retained earnings	6(19)						
Legal reserve		39,431,639	9	39,431,639	10	36,998,379	9
Undistributed earnings		113,272,270	27	108,577,764	27	105,449,735	26
Other equity	6(20)	31,737,450	8	23,840,504	6	26,191,065	6
Treasury shares	6(19)	(55,970)	-	(55,970)	-	(55,970)	-
Equity attributable to owners of the parent		285,894,842	69	272,946,221	68	272,604,832	66
Non-controlling interests	6(19), 6(31)	1,408,460	-	1,379,686	-	1,410,137	-
Total equity		287,303,302	69	274,325,907	68	274,014,969	66
Total liabilities and equity		\$ 418,733,254	100	\$ 402,836,044	100	\$ 413,778,834	100

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

Chairman : Ming-Kai Tsai

President : Lih-Shyng Tsai

Chief Financial Officer : David Ku

MEDIATEK INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three months ended March 31, 2019 and 2018

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

Description	Notes	Three Months Ended March 31			
		2019	%	2018 (Adjusted)	%
Net sales	6(21)	\$ 52,721,892	100	\$ 49,653,987	100
Operating costs	6(7), 6(24), 7	(31,248,748)	(59)	(30,569,299)	(62)
Gross profit		21,473,144	41	19,084,688	38
Operating expenses	6(22), 6(23), 6(24), 7				
Selling expenses		(2,165,533)	(4)	(2,271,683)	(4)
Administrative expenses		(1,554,990)	(3)	(1,676,068)	(3)
Research and development expenses		(14,606,531)	(28)	(13,316,490)	(27)
Expected credit gains		22,582	-	108,994	-
Total operating expenses		(18,304,472)	(35)	(17,155,247)	(34)
Operating income		3,168,672	6	1,929,441	4
Non-operating income and expenses					
Other income	6(25), 7	1,175,783	2	890,064	2
Other gains and losses	6(26)	142,142	-	151,386	-
Finance costs	6(27)	(449,450)	(1)	(407,185)	(1)
Share of profit of associates accounted for using the equity method	6(9)	(32,416)	-	423,182	1
Total non-operating income and expenses		836,059	1	1,057,447	2
Net income before income tax		4,004,731	7	2,986,888	6
Income tax expense	4, 6(29)	(588,709)	(1)	(452,267)	(1)
Net income		3,416,022	6	2,534,621	5
Other comprehensive income	6(9), 6(28), 6(29)				
Items that may not be reclassified subsequently to profit or loss					
Remeasurements of defined benefit plan		(15)	-	(52)	-
Unrealized gains from equity instrument investments measured at fair value through other comprehensive income		8,531,744	16	1,092,105	2
Share of other comprehensive income of associates and joint ventures accounted for using the equity method		547,990	1	1,391,964	3
Income tax relating to those items not to be reclassified to profit or loss		(808,241)	(1)	(139,003)	-
Items that may be reclassified subsequently to profit or loss					
Exchange differences resulting from translating the financial statements of foreign operations		867,030	2	(1,269,868)	(3)
Unrealized gains from debt instrument investments measured at fair value through other comprehensive income		37,546	-	23,163	-
Share of other comprehensive income of associates and joint ventures accounted for using the equity method		697	-	(5,759)	-
Income tax relating to those items to be reclassified to profit or loss		-	-	(16)	-
Other comprehensive income, net of tax		9,176,751	18	1,092,534	2
Total comprehensive income		\$ 12,592,773	24	\$ 3,627,155	7
Net income (loss) for the periods attributable to :					
Owners of the parent	6(30)	\$ 3,405,702		\$ 2,519,245	
Non-controlling interests	6(31)	10,320		15,376	
		\$ 3,416,022		\$ 2,534,621	
Total comprehensive income for the periods attributable to :					
Owners of the parent		\$ 12,563,999		\$ 3,604,388	
Non-controlling interests		28,774		22,767	
		\$ 12,592,773		\$ 3,627,155	
Basic Earnings Per Share (in New Taiwan Dollars)	6(30)	\$ 2.17		\$ 1.61	
Diluted Earnings Per Share (in New Taiwan Dollars)	6(30)	\$ 2.15		\$ 1.60	

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

Chairman : Ming-Kai Tsai

President : Lih-Shyng Tsai

Chief Financial Officer : David Ku

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the three months ended March 31, 2019 and 2018

(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	Undistributed earnings	Exchange differences resulting from translating the financial statements of foreign operations	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Unrealized gains (losses) from available-for-sale financial assets	Others				
Balance as of January 1, 2018	\$ 15,814,140	\$ 231	\$ 88,210,819	\$ 36,998,379	\$ 100,629,197	\$ (2,250,288)	\$ -	\$ 21,062,950	\$ (597,815)	\$ (55,970)	\$ 259,811,643	\$ 1,387,370	\$ 261,199,013
Effects of retrospective application and restatement (Adjusted)	-	-	-	-	2,221,085	-	27,945,391	(21,062,950)	-	-	9,103,526	-	9,103,526
Restated balance as of January 1, 2018	15,814,140	231	88,210,819	36,998,379	102,850,282	(2,250,288)	27,945,391	-	(597,815)	(55,970)	268,915,169	1,387,370	270,302,539
Profit for the three months ended March 31, 2018 (Adjusted)	-	-	-	-	2,519,245	-	-	-	-	-	2,519,245	15,376	2,534,621
Other comprehensive income for the three months ended March 31, 2018 (Adjusted)	-	-	-	-	(15,720)	(1,283,018)	2,383,881	-	-	-	1,085,143	7,391	1,092,534
Total comprehensive income	-	-	-	-	2,503,525	(1,283,018)	2,383,881	-	-	-	3,604,388	22,767	3,627,155
Share-based payment transactions	231	(55)	6,213	-	-	-	-	-	-	-	6,389	-	6,389
Changes in ownership interests in subsidiaries	-	-	(4,326)	-	(28,936)	-	-	-	-	-	(33,262)	-	(33,262)
Issuance of restricted stock for employees	-	-	(5,036)	-	103	-	-	-	117,675	-	112,742	-	112,742
Changes in other capital surplus	-	-	(594)	-	-	-	-	-	-	-	(594)	-	(594)
Proceeds from disposal of equity instruments measured at fair value through other comprehensive income	-	-	-	-	124,761	-	(124,761)	-	-	-	-	-	-
Balance as of March 31, 2018	\$ 15,814,371	\$ 176	\$ 88,207,076	\$ 36,998,379	\$ 105,449,735	\$ (3,533,306)	\$ 30,204,511	\$ -	\$ (480,140)	\$ (55,970)	\$ 272,604,832	\$ 1,410,137	\$ 274,014,969
Balance as of January 1, 2019	\$ 15,915,070	\$ -	\$ 85,237,214	\$ 39,431,639	\$ 108,577,764	\$ (1,222,342)	\$ 26,428,344	\$ -	\$ (1,365,498)	\$ (55,970)	\$ 272,946,221	\$ 1,379,686	\$ 274,325,907
Profit for the three months ended March 31, 2019	-	-	-	-	3,405,702	-	-	-	-	-	3,405,702	10,320	3,416,022
Other comprehensive income for the three months ended March 31, 2019	-	-	-	-	(15)	849,273	8,309,039	-	-	-	9,158,297	18,454	9,176,751
Total comprehensive income	-	-	-	-	3,405,687	849,273	8,309,039	-	-	-	12,563,999	28,774	12,592,773
Share-based payment transactions	-	-	5,233	-	-	-	-	-	-	-	5,233	-	5,233
Issuance of restricted stock for employees	21,688	-	315,912	-	(157)	-	-	-	27,610	-	365,053	-	365,053
Changes in other capital surplus	-	-	14,336	-	-	-	-	-	-	-	14,336	-	14,336
Proceeds from disposal of equity instruments measured at fair value through other comprehensive income	-	-	-	-	1,288,976	-	(1,288,976)	-	-	-	-	-	-
Balance as of March 31, 2019	\$ 15,936,758	\$ -	\$ 85,572,695	\$ 39,431,639	\$ 113,272,270	\$ (373,069)	\$ 33,448,407	\$ -	\$ (1,337,888)	\$ (55,970)	\$ 285,894,842	\$ 1,408,460	\$ 287,303,302

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

Chairman : Ming-Kai Tsai

President : Lih-Shyng Tsai

Chief Financial Officer : David Ku

MEDIATEK INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three months ended March 31, 2019 and 2018

(Amounts in thousands of New Taiwan Dollars)

Description	Three Months Ended March 31	
	2019	2018 (Adjusted)
Cash flows from operating activities :		
Profit before tax from continuing operations	\$ 4,004,731	\$ 2,986,888
Adjustments for:		
The profit or loss items which did not affect cash flows:		
Depreciation	1,028,234	939,304
Amortization	986,939	834,458
Expected credit gains	(22,582)	(108,994)
Gains on financial assets and liabilities at fair value through profit or loss	(60,866)	(385,608)
Interest expenses	449,450	407,185
Gains on derecognition of financial assets measured at amortized cost	(4,918)	(25,664)
Interest income	(1,020,839)	(797,003)
Dividend income	(35,815)	(23,288)
Share-based payment expenses	370,483	112,620
Share of profit of associates accounted for using the equity method	32,416	(423,182)
Losses on disposal of property, plant and equipment	193	1,076
Property, plant and equipment transferred to expenses	2,108	1,200
Losses on disposal of investments	16,119	5,013
Impairment of non-financial assets	-	22,760
Others	139	-
Changes in operating assets and liabilities:		
Financial assets mandatorily measured at fair value through profit or loss	(2,387,497)	1,488,028
Notes receivables	1,343	1,204
Trade receivables	3,683,002	(798,050)
Trade receivables from related parties	(1,086)	-
Other receivables	1,442,199	1,703,776
Inventories	849,861	(6,714,508)
Prepayments	(261,381)	(333,609)
Other current assets	(52,603)	(639,117)
Contract liabilities	828,324	(174,045)
Trade payables	2,332,765	5,020,116
Trade payables to related parties	(52,448)	50,891
Other payables	(5,933,958)	(6,091,744)
Other payables to related parties	4,065	-
Other current liabilities	(4,301,071)	742,419
Net defined benefit liabilities	(2,620)	2,051
Non-current liabilities-others	(6,118)	272,477
Cash generated from operating activities:		
Interest received	758,618	784,258
Dividend received	35,815	23,288
Interest paid	(421,427)	(380,993)
Income tax paid	(570,736)	(165,917)
Net cash provided by (used in) operating activities	1,690,839	(1,662,710)
Cash flows from investing activities :		
Acquisition of financial assets at fair value through other comprehensive income	(1,598,767)	(744,554)
Proceeds from disposal of financial assets at fair value through other comprehensive income	2,252,230	8,749,542
Proceeds from capital return of financial assets at fair value through other comprehensive income	-	9,206
Acquisition of financial assets measured at amortized cost	(101,136)	(6,041,307)
Proceeds from redemption of financial assets measured at amortized cost	473,873	753,845
Acquisition of investments accounted for using the equity method	-	(545,566)
Proceeds from disposal of investments accounted for using the equity method	7,956	-
Acquisition of property, plant and equipment	(1,113,069)	(1,728,309)
Proceeds from disposal of property, plant and equipment	835	3,320
(Increase) decrease in refundable deposits	(12,911)	45,934
Acquisition of intangible assets	(1,517,057)	(1,397,276)
Increase in long-term prepaid rent	-	(941)
Net cash used in investing activities	(1,608,046)	(896,106)
Cash flows from financing activities :		
Increase (decrease) in short-term borrowings	7,425,891	(1,287,081)
Repayment of long-term borrowings	(13,810)	-
Increase in deposits received	392,399	601
Cash payment for the principal portion of the lease liabilities	(64,890)	-
Proceeds from exercise of employee stock options	-	4,945
Cash dividends	(197)	122
Net cash provided by (used in) financing activities	7,739,393	(1,281,413)
Effect of changes in exchange rate on cash and cash equivalents	486,463	(881,187)
Net increase (decrease) in cash and cash equivalents	8,308,649	(4,721,416)
Cash and cash equivalents at the beginning of the period	143,170,245	145,338,376
Cash and cash equivalents at the end of the period	\$ 151,478,894	\$ 140,616,960

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

Chairman : Ming-Kai Tsai

President : Lih-Shyng Tsai

Chief Financial Officer : David Ku

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

1. Organization and Operation

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

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

The consolidated financial statements were authorized for issue in accordance with a resolution of the Board of Directors on April 30, 2019.

3. Newly Issued or Revised Standards and Interpretations

- (1) Changes in accounting policies resulting from applying for the first time certain standards and amendments

MTK and its subsidiaries (“the Company”) applied for the first time International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended which are recognized by Financial Supervisory Commission (“FSC”) and become effective for annual periods beginning on or after January 1, 2019. The nature and the impact of each new standard and amendment that has a material effect on the Company is described below:

A. IFRS 16 “Leases”

IFRS 16 “Leases” replaces IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, SIC-15 “Operating Leases - Incentives” and SIC-27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”.

The Company follows the transition provision in IFRS 16 and the date of initial application was January 1, 2019. The impacts arising from the adoption of IFRS 16 are summarized 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)

- a. Please refer to Note 4 for the accounting policies before or after January 1, 2019.
- b. For the definition of a lease, the Company elected not to reassess whether a contract is, or contains, a lease on January 1, 2019. The Company is permitted to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 but not to apply IFRS 16 to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. That is, for contracts entered into (or changed) on or after January 1, 2019, the Company need to assess whether contracts are, or contain, leases applying IFRS 16. In comparing to IAS 17, IFRS 16 provides that a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company assessed most of the contracts are, or contain, leases and have no significant impact arisen.
- c. The Company as lessee: The Company elects not to restate comparative information in accordance with the transition provision in IFRS 16. Instead, the Company recognizes the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application.

(a) Leases previously classified as operating leases

For leases that were previously classified as operating leases applying IAS 17, the Company measured and recognized those leases as lease liability on January 1, 2019 at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. In addition, the Company chooses, on a lease-by-lease basis, to measure the right-of-use asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet immediately before January 1, 2019.

On January 1, 2019, the Company's right-of-use asset increased by NT\$2,703,679 thousand, investment property increased by NT\$63,946 thousand, prepayment decreased by NT\$52,541 thousand, lease liability-current increased by NT\$331,219 thousand and lease liability-noncurrent increased NT\$2,262,560 thousand.

Among them, on January 1, 2019, for leases that had previously been classified as operating leases applying IAS 17 and whose rent had been paid in full, the Company reclassified the long-term rental prepayment of NT\$121,305 thousand to the right-of-use asset.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

In accordance with the transition provision in IFRS 16, the Company used the following practical expedients on a lease-by-lease basis to leases previously classified as operating leases:

- i. Apply a single discount rate to a portfolio of leases with reasonably similar characteristics.
 - ii. Rely on its assessment of whether leases are onerous immediately before January 1, 2019 as an alternative to performing an impairment review.
 - iii. Elect to account in the same way as short-term leases to leases for which the lease term ends within 12 months of January 1, 2019.
 - iv. Exclude initial direct costs from the measurement of the right-of-use asset on January 1, 2019.
 - v. Use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.
- (b) Please refer to Note 4, Note 5 and Note 6 for additional disclosure of lessees which required by IFRS 16.
- (c) As at January 1, 2019, the impacts arising from the adoption of IFRS 16 are summarized as follows:
- i. The lessee's weighted average incremental borrowing rate applied to lease liabilities recognized in the balance sheet on January 1, 2019 was 1.06%.
 - ii. The difference of the amount NT\$1,076,278 thousand between: 1) operating lease commitments disclosed applying IAS 17 as at December 31, 2018, discounted using the incremental borrowing rate on January 1, 2019; and 2) lease liabilities recognized in the balance sheet as at January 1, 2019 is presented as follows:

Operating lease commitments disclosed applying IAS 17 as at December 31, 2018	<u>\$ 1,908,923</u>
Discounted using the incremental borrowing rate on January 1, 2019	\$ 1,517,501
Less: adjustment to leases that meet and elect to account in the same way as short-term leases	(216,184)
Less: adjustment to leases that meet and elect the underlying asset of low value	(18,253)
Add: adjustments to the options to extend or terminate the lease that is reasonably certain to exercise	<u>1,310,715</u>
The carrying value of lease liabilities recognized as at January 1, 2019	<u>\$ 2,593,779</u>

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- (d) The Company as lessor: The Company has not made any adjustments. Please refer to Note 4 and Note 6 (23) for the information relating to the lessor.
- (2) Standards or interpretations issued, revised or amended, which are recognized by FSC, but not yet adopted by the Company as at the end of the reporting period are listed below:
None.
- (3) 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 10 and IAS 28	“Consolidated Financial Statements” and “Investments in Associates and Joint Ventures” - Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures (Amendment)	To be determined by IASB
IFRS 17	“Insurance Contracts”	January 1, 2021
IFRS 3	Amendment to “Business Combinations”- Definition of a Business	January 1, 2020
IAS 1 and IAS 8	“Presentation of Financial Statements” and “Accounting Policies, Changes in Accounting Estimates and Errors”- Definition of material (Amendment)	January 1, 2020

- A. IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” - Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures (Amendment)

The amendments address the inconsistency between the requirements in IFRS 10 “Consolidated Financial Statements” (IFRS 10) and IAS 28 “Investments in Associates and Joint Ventures” (IAS 28), in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint venture. IFRS 10 requires full profit or loss recognition on the loss of control of a subsidiary. IAS 28 was amended so that the gain or loss resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 “Business Combinations” (IFRS 3) between an investor and its associate or joint venture is recognized 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)

IFRS 10 was also amended so that the gain or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors' interests in the associate or joint venture.

B. IFRS 3 Amendment to “Business Combinations” - Definition of a Business

The amendments clarify the definition of a business in IFRS 3 Business Combinations. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

IFRS 3 continues to adopt a market participant's perspective to determine whether an acquired set of activities and assets is a business. The amendments clarify the minimum requirements for a business; add guidance to help entities assess whether an acquired process is substantive; and narrow the definitions of a business and of outputs; etc.

C. IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” - Definition of material (Amendment)

The main amendment is to clarify new definition of material. It states that “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

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 currently determining the potential impact of the standards and interpretations listed under A-C, it is not practicable to estimate the impact on the Company at this point in time. All other standards and interpretations have no material impact on the Company.

4. Summary of Significant Accounting Policies

Statement of Compliance

The consolidated financial statements of the Company for the three month periods ended March 31, 2019 and 2018 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 and became effective by the FSC.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Basis of Preparation

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

Basis of Consolidation

Preparation principle of consolidated financial statement

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

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

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

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

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

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

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

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

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

If loses control of a subsidiary, it:

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

The consolidated entities are listed as follows:

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			March 31, 2019	December 31, 2018	March 31, 2018	
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	MStar Semiconductor, Inc.	Research, manufacturing and sales	-	100%	100%	1
MTK	MStar International Technology Inc.	Research	100%	100%	100%	2
MTK	HFI Innovation Inc.	Intellectual property right management	100%	100%	100%	-
MTK	Airoha Technology Corp.	Research, manufacturing and sales	7%	7%	7%	-
MTK	MStar France SAS	Research	100%	-	-	1
MTK	MStar Co., Ltd.	General investing	100%	-	-	1
MTK	Digimoc Holdings Limited	General investing	100%	-	-	1
MTK	MStar Semiconductor UK Ltd.	Research and technical services	100%	-	-	1

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			March 31, 2019	December 31, 2018	March 31, 2018	
MTK	ILI Technology Corporation	Research, manufacturing and sales	100%	-	-	1
MTK	MShining International Corporation	Sales	100%	-	-	1
MTK	Sigmastar Technology Inc.	General investing	100%	-	-	1
MTK	Spidcom Technologies	Research	100%	-	-	1
Hsu-Ta Investment Corp.	Core Tech Resources Inc.	General investing	100%	100%	100%	-
Hsu-Ta Investment Corp.	MediaTek Capital Corp.	General investing	100%	100%	100%	-
Hsu-Ta Investment Corp.	MediaTek Bangalore Private Limited	Research	0%	0%	0%	-
Hsu-Ta Investment Corp.	Hsu-Si Investment Corp.	General investing	100%	100%	100%	-
MediaTek Capital Corp.	RollTech Technology Co., Ltd.	Research	67%	67%	67%	-
MediaTek Capital Corp.	E-Vehicle Semiconductor Technology Co., Ltd.	Research, manufacturing and sales	-	-	47%	3
MediaTek Capital Corp.	Chingis Technology Corp.	Research	100%	100%	100%	-
MediaTek Capital Corp.	Velocenet Inc.	Research	100%	100%	100%	-
MediaTek Capital Corp.	Nephos (Taiwan) Inc.	Research	100%	100%	100%	-
MediaTek Capital Corp.	MediaTek Research Corp.	Research	100%	-	-	4
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%	100%	100%	-
Hsu-Si Investment Corp.	Airoha Technology Corp.	Research, manufacturing and sales	93%	93%	93%	-

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			March 31, 2019	December 31, 2018	March 31, 2018	
Hsu-Si Investment Corp.	Airoha (Cayman) Inc.	General investing	100%	100%	100%	-
Richtek Technology Corp.	Richstar Group Co., Ltd.	General investing	100%	100%	100%	-
Richtek Technology Corp.	Ironman Overseas Co., Ltd.	General investing	100%	100%	100%	-
Richtek Technology Corp.	Richtek Europe Holding B.V.	General investing	100%	100%	100%	-
Richtek Technology Corp.	Richtek Holding International Limited	General investing	100%	100%	100%	-
Richtek Technology Corp.	Richpower Microelectronics Corp.	Manufacturing and sales	100%	100%	100%	-
Richtek Technology Corp.	Li-Yu Investment Corp.	General investing	100%	100%	100%	-
Richtek Technology Corp.	Richnex Microelectronics Corp.	Research, manufacturing and sales	82%	82%	79%	-
Richtek Technology Corp.	Richtek Global Marketing Co., Ltd.	General investing	100%	100%	100%	-
Richstar Group Co., Ltd.	Richtek USA Inc.	Sales and technical services	100%	100%	100%	-
Ironman Overseas Co., Ltd.	Cosmic-Ray Technology Limited	General investing	100%	100%	100%	-
Richtek Europe Holding B.V.	Richtek Europe B.V.	Marketing services	100%	100%	100%	-
Cosmic-Ray Technology Limited	Li-We Technology Corp.	Research and technical services	100%	100%	100%	-
Richpower Microelectronics Corp.	Richpower Microelectronics Corporation	Administrative services	100%	100%	100%	-
Richpower Microelectronics Corp.	Richpower Microelectronics Co., Ltd.	Technical services	100%	100%	100%	-
Li-Yu Investment Corp.	Corporate Event Limited	Technical services	51%	51%	51%	-

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			March 31, 2019	December 31, 2018	March 31, 2018	
Richtek Global Marketing Co., Ltd	Richtek Korea LLC.	Sales and technical services	100%	100%	100%	-
Airoha (Cayman) Inc.	Airotek (Shenzhen) Inc.	Research and technical services	100%	100%	100%	-
Airoha (Cayman) Inc.	Airotek (Chengdu) Inc.	Research	100%	100%	100%	-
Airoha Technology Corp.	Airoha Technology (Samoa) Corp.	General investing	100%	100%	100%	-
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.	Technical services	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	Gold Rich International (Samoa) Limited	General investing	100%	100%	100%	-
Gaintech Co. Limited	Smarthead Limited	General investing	100%	100%	100%	-
Gaintech Co. Limited	Ralink Technology (Samoa) Corp.	General investing	100%	100%	100%	-
Gaintech Co. Limited	EcoNet (Cayman) Inc.	General investing	75%	75%	77%	-
Gaintech Co. Limited	MediaTek Wireless FZ-LLC	Technical services	100%	100%	100%	-
Gaintech Co. Limited	Digital Lord Limited	General investing	100%	100%	100%	-
Gaintech Co. Limited	Hsu Chia (Samoa) Investment Ltd.	General investing	100%	100%	100%	-
Gaintech Co. Limited	Hsu Fa (Samoa) Investment Ltd.	General investing	100%	100%	100%	-
Gaintech Co. Limited	Hsu Kang (Samoa) Investment Ltd.	General investing	100%	100%	100%	-
Gaintech Co. Limited	Nephos Pte. Ltd.	Research	100%	100%	100%	-
Gaintech Co. Limited	Nephos Inc.	Research	100%	100%	100%	-
Gaintech Co. Limited	Nephos Cayman Co. Limited	General investing	100%	100%	100%	-
Gaintech Co. Limited	Dynamic Presence Limited	General investing	-	-	100%	5

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			March 31, 2019	December 31, 2018	March 31, 2018	
Gaintech Co. Limited	White Dwarf Limited	General investing	100%	100%	100%	-
Gaintech Co. Limited	Zelus Technology (HangZhou) Ltd.	Research and sales	100%	100%	100%	-
Gaintech Co. Limited	IStar Technology Ltd.	General investing	100%	100%	-	6
Gaintech Co. Limited	MediaTek Research UK Limited	Research	100%	-	-	7
Gaintech Co. Limited	ILI Technology Holding Corporation	General investing	100%	-	-	7
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 technical 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%	-
MediaTek China Limited	MediaTek (Shanghai) Inc.	Research	100%	100%	100%	-
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 Wireless Finland Oy	Research	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%	-
Lepower (HK) Limited	Nephos (Beijing) Co., Ltd.	Research	-	-	100%	8
E-Vehicle Semiconductor Technology Co., Ltd.	E-Vehicle Holdings Corp.	General investing	-	-	100%	3

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			March 31, 2019	December 31, 2018	March 31, 2018	
E-Vehicle Holdings Corp.	E-Vehicle Investment Limited	General investing	-	-	100%	3
E-Vehicle Investment Limited	E-Vehicle Semiconductor (Shanghai) Co., Ltd.	Research, manufacturing and sales	-	-	100%	3
EcoNet (Cayman) Inc.	Shadow Investment Limited	General investing	100%	100%	100%	-
EcoNet (Cayman) Inc.	EcoNet (HK) Limited	Research	100%	100%	100%	-
EcoNet (HK) Limited	EcoNet (Suzhou) Limited	Research, manufacturing and sales	100%	100%	100%	-
EcoNet (Suzhou) Limited	EcoNet Limited	General investing and sales	100%	100%	100%	-
Shadow Investment Limited	MediaTek (Nanjing) Inc.	Research	-	-	-	9
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%	-
MediaTek Investment Singapore Pte. Ltd.	Mstar Semiconductor India Private Limited	Research and technical services	100%	100%	-	10
MStar Semiconductor, Inc.	MStar France SAS	Research	-	100%	100%	1
MStar Semiconductor, Inc.	Shunfonger Investment Holding Limited	General investing	-	-	100%	11
MStar Semiconductor, Inc.	IStar Technology Ltd.	General investing	-	-	100%	6
MStar Semiconductor, Inc.	MStar Co., Ltd.	General investing	-	100%	100%	1
MStar Semiconductor, Inc.	Digimoc Holdings Limited	General investing	-	100%	100%	1
MStar Semiconductor, Inc.	MStar Semiconductor UK Ltd.	Research and technical services	-	100%	100%	1

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			March 31, 2019	December 31, 2018	March 31, 2018	
MStar Semiconductor, Inc.	ILI Technology Corporation	Research, manufacturing and sales	-	100%	100%	1
MStar Semiconductor, Inc.	MStar Technology Pte. Ltd.	Research, manufacturing and sales	-	-	100%	12
MStar Semiconductor, Inc.	MShining International Corporation	Sales	-	100%	100%	1
MStar Semiconductor, Inc.	Sigmastar Technology Corp.	Research, manufacturing and sales	-	-	100%	13
MStar Semiconductor, Inc.	Sigmastar Technology Inc.	General investing	-	100%	100%	1
MStar Semiconductor, Inc.	Spidcom Technologies	Research	-	100%	-	1,14
Sigmastar Technology Inc.	Xiamen Sigmastar Technology Inc.	Research, manufacturing and sales	90%	90%	100%	-
Sigmastar Technology Inc.	Sigmastar Technology Corp.	Research, manufacturing and sales	100%	100%	-	13
Xiamen Sigmastar Technology Inc.	Shenzhen Sing Chen Technology Inc.	Technical services	100%	100%	100%	15
Xiamen Sigmastar Technology Inc.	SigmaStar Technology Inc. (Shanghai)	Technical services	100%	100%	-	16
MStar Co., Ltd.	MStar Software R&D (Shenzhen), Ltd.	Technical services	100%	100%	100%	-
Digimoc Holdings Limited	Bubbly Bay Holdings Limited	General investing	-	-	100%	17
MStar Software R&D (Shenzhen), Ltd.	MStar Chen Xi Software Shanghai Ltd.	Technical services	100%	100%	100%	-
MStar Semiconductor UK Ltd.	MSilicon Technology Corp.	Research and technical services	-	-	100%	18
MStar Technology Pte. Ltd.	MStar Semiconductor India Private Limited	Research and technical services	-	-	100%	10

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			March 31, 2019	December 31, 2018	March 31, 2018	
IStar Technology Ltd.	Beijing Iitek Technology Co. Ltd.	Research and technical services	100%	100%	100%	-
IStar Technology Ltd.	ShenZhen ZhongChen Semiconductor Ltd.	Technical services	100%	100%	-	19
ILI Technology Corporation	ILITEK Holding Inc.	General investing	100%	100%	100%	-
ILITEK Holding Inc.	ILI Technology(SZ) LTD.	Technical services	100%	100%	100%	-
Nephos Cayman Co. Limited	Nephos (Hefei) Co. Ltd.	Research, manufacturing and sales	83%	83%	63%	-
Nephos (Hefei) Co. Ltd.	Nephos (Beijing) Co. Ltd.	Research	100%	100%	-	8

1. For the purpose of reorganization, MStar Semiconductor, Inc. was dissolved due to the merger with MediaTek Inc. on January 1, 2019. Subsidiaries previously owned by MStar Semiconductor, Inc., were transferred to MediaTek Inc.
2. Hsu-Chuang Investment Corp. was renamed Hsu-Chuang Communication Corp. in February 2018 and was further renamed MStar International Technology Inc. in September 2018.
3. E-Vehicle Semiconductor Technology Co., Ltd. and its subsidiaries have been removed from the consolidated entities as the Company lost control over them in December 2018.
4. MediaTek Capital Corp. established MediaTek Research Corp. in January 2019.
5. For the purpose of reorganization, Dynamic Presence Limited has been liquidated in November 2018.
6. For the purpose of reorganization, the 100% ownership of IStar Technology Ltd. and its subsidiaries, which was previously owned by MStar Semiconductor, Inc., was transferred to Gaintech Co. Limited in December 2018.
7. Gaintech Co. Limited established MediaTek Research UK Limited and ILI Technology Holding Corporation in January 2019.
8. Lepower Technologies (Beijing) Inc. was renamed Nephos (Beijing) Co., Ltd. in June 2018. For the purpose of reorganization, the 100% ownership of Nephos (Beijing) Co., Ltd., which was previously owned by Lepower (HK) Limited, was transferred to Nephos (Hefei) Co. Ltd. in September 2018.
9. For the purpose of reorganization, MediaTek (Nanjing) Inc. has been liquidated and returned its capital in February 2018.
10. For the purpose of reorganization, the 100% ownership of MStar Semiconductor India Private Limited, which was previously owned by MStar Technology Pte. Ltd., was transferred to MediaTek Investment Singapore Pte. Ltd. in December 2018.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

11. For the purpose of reorganization, Shunfonger Investment Holding Limited has been liquidated and returned its capital in August 2018.
12. For the purpose of reorganization, the 100% ownership of MStar Technology Pte. Ltd., which was previously owned by MStar Semiconductor, Inc., was transferred to MediaTek Singapore Pte. Ltd. in December 2018. Moreover, MStar Technology Pte. Ltd. was dissolved due to merger with MediaTek Singapore Pte. Ltd. in December 2018.
13. For the purpose of reorganization, the 100% ownership of Sigmastar Technology Corp., which was previously owned by MStar Semiconductor, Inc., was transferred to Sigmastar Technology Inc. in October 2018.
14. MStar Semiconductor, Inc. accomplished the tender offer and acquired 100% shares of Spidcom Technologies in July 2018.
15. Xiamen Sigmastar Technology Inc. established Shenzhen Sing Chen Technology Inc. in January 2018.
16. Xiamen Sigmastar Technology Inc. established SigmaStar Technology Inc. (Shanghai) in April 2018.
17. For the purpose of reorganization, Bubbly Bay Holdings Limited has been liquidated and returned its capital in July 2018.
18. For the purpose of reorganization, MSilicon Technology Corp. has been liquidated and returned its capital in September 2018.
19. IStar Technology Ltd. established ShenZhen ZhongChen Semiconductor Ltd. in June 2018.

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

Except for the accounting policies listed under Note 4, the same accounting policies have been followed in the consolidated financial statements for the three months ended March 31, 2019 and 2018 as were applied in the preparation of the Company's consolidated financial statements for the year ended December 31, 2018. For the summary of other significant accounting policies, please refer to the consolidated financial statements for the year ended December 31, 2018.

Investment property

The accounting policy from January 1, 2019 is as follows:

The Company's owned investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, other than those that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", investment properties are measured using the cost model in accordance with the requirements of IAS 16 for that model. If investment properties are held by a lessee as right-of-use assets and is not held for sale in accordance with IFRS 5, investment properties are measured in accordance with the requirements of IFRS 16.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

Buildings	40-50 years
Right-of-use assets	3-50 years

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of derecognition.

The Company decides to transfer to or from investment properties based on the actual usage of the assets.

Properties are transferred to or from investment properties when the properties meet, or cease to meet, the definition of investment property and there is evidence of the change in use.

The accounting policy before January 1, 2019 is as follows:

The Company's investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are measured using the cost model in accordance with the requirements of IAS 16 for that model, other than those that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

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

Buildings	40-50 years
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Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of derecognition.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

The Company decides to transfer to or from investment properties based on the actual usage of the assets.

Leases

The accounting policy from January 1, 2019 is as follows:

For contracts entered on or after January 1, 2019, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Company assesses whether the contract, throughout the period of use, has both of the following:

- (a) the right to obtain substantially all of the economic benefits from use of the identified asset;
and
- (b) the right to direct the use of the identified asset.

The Company elected not to reassess whether a contract is, or contains, a lease on January 1, 2019. The Company is permitted to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 but not to apply IFRS 16 to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

For a contract that is, or contains, a lease, the Company accounts for each lease component within the contract as a lease separately from non-lease components of the contract. For a contract that contains a lease component and one or more additional lease or non-lease components, the Company allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. The relative stand-alone price of lease and non-lease components shall be determined on the basis of the price the lessor, or a similar supplier, would charge the Company for that component, or a similar component, separately. If an observable stand-alone price is not readily available, the Company estimates the stand-alone price, maximising the use of observable information.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

A. The Company as a lessee

Except for leases that meet and elect short-term leases or leases of low-value assets, the Company recognizes right-of-use asset and lease liability for all leases which the Company is the lessee of those lease contracts.

At the commencement date, the Company measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses its incremental borrowing rate. At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- (a) fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- (b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- (c) amounts expected to be payable by the lessee under residual value guarantees;
- (d) the exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- (e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

After the commencement date, the Company measures the lease liability on an amortised cost basis, which is increasing the carrying amount to reflect interest on the lease liability by using an effective interest method; and reducing the carrying amount to reflect the lease payments made.

At the commencement date, the Company measures the right-of-use asset at cost. The cost of the right-of-use asset comprises:

- (a) the amount of the initial measurement of the lease liability;
- (b) any lease payments made at or before the commencement date, less any lease incentives received;

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- (c) any initial direct costs incurred by the lessee; and
- (d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

For subsequent measurement of the right-of-use asset, the Company measures the right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses. That is, the Company measures the right-of-use asset applying a cost model.

If the lease transfers ownership of the underlying asset to the Company by the end of the lease term or if the cost of the right-of-use asset reflects that the Company will exercise a purchase option, the Company depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Company depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The Company applies IAS 36 “Impairment of Assets” to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

Except for leases that meet and elect short-term leases or leases of low-value assets, the Company presents right-of-use assets and lease liabilities in the balance sheet and presents interest expense separately from the depreciation charge associate with those leases in the consolidated income statement.

For short-term leases or leases of low-value assets, the Company elects to recognize the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis.

B. The Company as a lessor

At inception of a contract, the Company classifies each of its leases as either an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset. At the commencement date, the Company recognizes assets held under a finance lease in its balance sheet and presents them as a receivable at an amount equal to the net investment in the lease.

MEDIATEK INC. AND SUBSIDIARIES

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

For a contract that contains lease components and non-lease components, the Company allocates the consideration in the contract applying IFRS 15.

The Company recognizes lease payments from operating leases as rental income on either a straight-line basis or another systematic basis. Variable lease payments for operating leases that do not depend on an index or a rate are recognized as rental income when incurred.

The accounting policy before January 1, 2019 is as follows:

A. The Company as a lessee

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

B. The Company as a lessor

The Company recognizes assets held under finance leases as lease receivables at an amount equal to the net investment in the lease. Direct costs incurred in connection with arranging a finance lease is included in net investment in the lease. The recognition of finance income is allocated over the lease term based on a pattern reflecting a constant periodic rate of return on net investment in the finance lease.

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

Post-employment benefits

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.

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

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. The average annual effective income tax rate is estimated by current income tax expenses only. Deferred income tax is recognized and measured according to IAS 12 “Income Tax” and follows the same accounting policies of the Company’s annual consolidated financial statements. When income tax rate changes occur in interim period, the effect on deferred income tax is recognized in profit or loss, other comprehensive income or equity at once.

5. Significant Accounting Judgments, Estimates and Assumptions

The same significant accounting judgments, estimates and assumptions have been followed in the consolidated financial statements for the three months ended March 31, 2019 and 2018 as were applied in the preparation of the Company’s consolidated financial statements for the year ended December 31, 2018. Please refer to the consolidated financial statements for the year ended December 31, 2018.

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

	March 31, 2019	December 31, 2018	March 31, 2018
Cash on hand and petty cash	\$ 4,499	\$ 4,653	\$ 5,676
Checking and savings accounts	16,973,320	20,053,199	12,098,744
Time deposits	134,392,757	122,966,588	128,512,540
Cash equivalents - repurchase agreements	108,318	145,805	-
Total	<u>\$ 151,478,894</u>	<u>\$ 143,170,245</u>	<u>\$ 140,616,960</u>

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

Cash and cash equivalents were not pledged.

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

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

	March 31, 2019	December 31, 2018	March 31, 2018 (Adjusted)
<u>Current</u>			
<u>Financial assets mandatorily</u>			
<u>measured at fair value through</u>			
<u>profit or loss</u>			
Funds	\$ 4,085,104	\$ 3,162,748	\$ 2,007,024
Bonds	786,663	997,692	757,337
Credit-linked deposits	537,475	529,273	1,056,241
Interest rate-linked deposits	262,484	261,152	-
Stocks	76,515	74,504	-
Forward exchange contracts	1,110	1,327	815
Total	<u>\$ 5,749,351</u>	<u>5,026,696</u>	<u>\$ 3,821,417</u>
<u>Held for trading financial liabilities</u>			
Forward exchange contracts	<u>\$ 5,904</u>	<u>4,932</u>	<u>\$ 325</u>
<u>Noncurrent</u>			
<u>Financial assets mandatorily</u>			
<u>measured at fair value through</u>			
<u>profit or loss</u>			
Credit-linked deposits	\$ 1,625,406	\$ 1,867,977	\$ 2,312,249
Exchange rate-linked deposits	1,510,836	943,737	-
Bonds	841,389	384,852	1,191,124
Interest rate-linked deposits	813,132	259,033	488,273
Trust Funds	497,409	394,617	416,479
Exchange rate and interest rate-			
linked deposits	406,860	-	-
Stocks	139,554	136,008	122,410
Total	<u>\$ 5,834,586</u>	<u>\$ 3,986,224</u>	<u>\$ 4,530,535</u>

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

Please refer to Note 6. (3) for more details on financial assets reclassification.

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

(3) Financial assets at fair value through other comprehensive income

	March 31, 2019	December 31, 2018	March 31, 2018 (Adjusted)
<u>Current</u>			
<u>Debt instrument investments</u>			
<u>measured at fair value through</u>			
<u>other comprehensive income</u>			
Bonds	\$ 839,521	\$ 1,357,537	\$ 4,712,293
<u>Equity instrument investments</u>			
<u>measured at fair value through</u>			
<u>other comprehensive income</u>			
Listed company stocks	26,767,373	12,000,191	15,921,207
Unlisted company stocks	132,810	110,347	138,504
Subtotal	26,900,183	12,110,538	16,059,711
Total	\$ 27,739,704	\$ 13,468,075	\$ 20,772,004
<u>Noncurrent</u>			
<u>Debt instrument investments</u>			
<u>measured at fair value through</u>			
<u>other comprehensive income</u>			
Bonds	\$ 1,493,931	\$ 787,275	\$ 1,482,523
<u>Equity instrument investments</u>			
<u>measured at fair value through</u>			
<u>other comprehensive income</u>			
Capital	11,431,265	11,109,299	9,615,924
Unlisted company stocks	6,171,344	5,431,327	4,773,788
Listed company stocks	3,650,504	12,047,624	10,366,155
Funds	2,849,665	2,707,975	2,534,895
Subtotal	24,102,778	31,296,225	27,290,762
Total	\$ 25,596,709	\$ 32,083,500	\$ 28,773,285

Financial assets at fair value through other comprehensive income 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)

Please refer to Note 6. (22) for more details on accumulated impairment of debt instrument investments measured at fair value through other comprehensive income and Note 12 for more details on credit risk.

The Company has equity instrument investments measured at fair value through other comprehensive income. Details on dividends recognized for the three months periods ended March 31, 2018 and 2019 are as follows:

	Three months ended March 31	
	2019	2018
Related to investments held at the end of the reporting period.	\$ 35,815	\$ 23,288
Dividends recognized during the period	\$ 35,815	\$ 23,288

In consideration of the Company's investment strategy, the Company disposed and derecognized partial of equity instrument investments measured at fair value through other comprehensive income. Details on derecognition of the investments for the three months ended March 31, 2018 and 2019 are as follows:

	Three months ended March 31	
	2019	2018
The fair value of the investments at the date of derecognition	\$ 1,694,002	\$ 226,657
The cumulative gain on disposal	\$ 1,432,661	\$ 124,761

Detail information to the financial assets reclassification is as follows:

A. Amounts and reason for financial assets reclassification

Financial assets at fair value through profit or loss:

Based on the Release No. 201812250001 issued by the Taiwan Stock Exchange and the Q&A "Real Estate Investment Trusts (REITs)" issued by the Accounting Research and Development Foundation, the Company is allowed, when preparing 2018 annual financial statements, to reclassify REITs that it owns and is not required to restate its 2018 interim financial statements.

However, when preparing the 2019 interim financial statements (the first quarter to the third quarter of 2019), the items and amounts of the comparative period (the first quarter to the third quarter of 2018) need to be adjusted to reflect the REITs reclassification.

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

Accordingly, the Company reclassified REITs from financial assets measured at fair value through profit or loss in the amount of NT\$2,409,272 thousand to the financial assets measured at fair value through other comprehensive income and reclassified the relevant evaluation from retained earnings in the amount of NT\$128,001 thousand to unrealized gains of financial assets measured at fair value through other comprehensive income as at January 1, 2019.

B. Relevant impacts of reclassified financial assets-REITs in the current period

In accordance with the aforementioned regulations, the Company reclassified REITs from financial assets measured at fair value through profit or loss-noncurrent in the amount of NT\$2,534,895 thousand to the financial assets measured at fair value through other comprehensive income-noncurrent as at March 31, 2018.

The Company reclassified gains on financial assets at fair value through profit or loss under other gains and losses in the amount of NT\$125,623 thousand to unrealized gains from equity instrument investments measured at fair value through other comprehensive income under other comprehensive income which may not be reclassified subsequently to profit or loss.

(4) Financial assets measured at amortized cost

	March 31, 2019	December 31, 2018	March 31, 2018
<u>Current</u>			
Bonds	\$ 2,617,582	2,995,945	\$ -
Time deposits	-	9,705	24,142
Subtotal	2,617,582	3,005,650	24,142
<u>Noncurrent</u>			
Time deposits	291,250	190,106	6,143,930
Bonds	290,000	290,000	290,000
Subtotal	581,250	480,106	6,433,930
Total	\$ 3,198,832	\$ 3,485,756	\$ 6,458,072

The Company classified certain financial assets as financial assets measured at amortized cost. Please refer to Note 6. (22) for more details on loss allowance and Note 8 for more details on financial assets measured at amortized cost under pledge. Please refer to Note 12 for more details on credit risk.

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(5) Trade receivables and trade receivables from related parties**

	March 31, 2019	December 31, 2018	March 31, 2018
Trade receivables	\$ 25,387,957	\$ 29,037,221	\$ 26,050,248
Less: allowance for doubtful debts	(84,918)	(107,395)	(213,083)
Subtotal	25,303,039	28,929,826	25,837,165
Trade receivables from related parties	7,691	6,605	-
Less: allowance for doubtful debts	-	-	-
Subtotal	7,691	6,605	-
Total	<u>\$ 25,310,730</u>	<u>\$ 28,936,431</u>	<u>\$ 25,837,165</u>

Trade receivables and trade receivables from related parties were not pledged.

Trade receivables are generally on 30-150 day terms. The total carrying amount for periods ended March 31, 2019, December 31, 2018, and March 31, 2018, are NT\$25,395,648 thousand, NT\$29,043,826 thousand and NT\$26,050,248 thousand, respectively. Please refer to Note 6. (22) for more details on impairment of trade receivables for the periods ended March 31, 2019 and 2018. Please refer to Note 12 for more details on credit risk management.

Trade receivables classified as financial assets measured at fair value through profit or loss due to regular factoring and without recourse were NT\$1,848,395 thousand, NT\$3,865,489 thousand and NT\$2,401,779 thousand as of March 31, 2019, December 31, 2018, and March 31, 2018, respectively.

(6) Other receivables

	March 31, 2019	December 31, 2018	March 31, 2018
Factoring receivables	\$ 1,852,524	\$ 2,978,963	\$ 1,596,280
Others	5,201,231	5,250,753	9,461,770
Total	<u>\$ 7,053,755</u>	<u>\$ 8,229,716</u>	<u>\$ 11,058,050</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 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\$1,852,524 thousand, NT\$2,978,963 thousand and NT\$1,596,280 thousand as of March 31, 2019, December 31, 2018, and March 31, 2018, respectively.

As of March 31, 2019, December 31, 2018, and March 31, 2018, trade receivables derecognized were as follows:

A. As of March 31, 2019:

The Factor (Transferee)	Interest rate	Trade receivables	Cash	Unutilized (US\$'000)	Credit line (US\$'000)
		derecognized (US\$'000)	withdrawn (US\$'000)		
Taishin International Bank	-	\$ 44,646	\$ -	\$ 44,646	\$ 102,500
BNP Paribas	-	15,229	-	15,229	157,000
HSBC	-	-	-	-	350
SMBC	-	223	-	223	12,000
Total		<u>\$ 60,098</u>	<u>\$ -</u>	<u>\$ 60,098</u>	<u>\$ 271,850</u>

B. As of December 31, 2018:

The Factor (Transferee)	Interest rate	Trade receivables	Cash	Unutilized (US\$'000)	Credit line (US\$'000)
		derecognized (US\$'000)	withdrawn (US\$'000)		
Taishin International Bank	-	\$ 50,860	\$ -	\$ 50,860	\$ 102,500
BNP Paribas	-	42,962	-	42,962	157,000
HSBC	-	-	-	-	350
SMBC	-	3,109	-	3,109	10,000
Total		<u>\$ 96,931</u>	<u>\$ -</u>	<u>\$ 96,931</u>	<u>\$ 269,850</u>

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

C. As of March 31, 2018:

The Factor (Transferee)	Interest rate	Trade receivables derecognized (US\$'000)	Cash withdrawn (US\$'000)	Unutilized (US\$'000)	Credit line (US\$'000)
Taishin International Bank	-	\$ 49,090	\$ -	\$ 49,090	\$ 88,000
BNP Paribas	-	5,640	-	5,640	107,000
HSBC	-	165	-	165	350
SMBC	-	-	-	-	10,000
Total		<u>\$ 54,895</u>	<u>\$ -</u>	<u>\$ 54,895</u>	<u>\$ 205,350</u>

(7) Inventories

	March 31, 2019	December 31, 2018	March 31, 2018
Raw materials	\$ 2,912,032	\$ 3,866,518	\$ 4,267,589
Work in progress	17,829,693	15,950,814	16,978,290
Finished goods	9,380,036	11,162,435	12,073,732
Net amount	<u>\$ 30,121,761</u>	<u>\$ 30,979,767</u>	<u>\$ 33,319,611</u>

For the three months ended March 31, 2019 and 2018, the cost of inventories recognized in expenses amounted to NT\$31,248,748 thousand and NT\$30,569,299 thousand, including the write-down of inventories of NT\$616,243 thousand and NT\$137,814 thousand for the three months ended March 31, 2019 and 2018, respectively.

Inventories were not pledged.

(8) Prepayments

	March 31, 2019	December 31, 2018	March 31, 2018
Prepaid expenses	\$ 941,134	\$ 684,645	\$ 629,106
Input tax	205,362	197,544	371,891
Others	598,775	641,092	723,044
Total	<u>\$ 1,745,271</u>	<u>\$ 1,523,281</u>	<u>\$ 1,724,041</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) Investments accounted for using the equity method**

Details of investments in associates and jointly controlled entities are as follows:

Investees	March 31, 2019		December 31, 2018		March 31, 2018	
	Carrying amount	Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)
Investments in associates:						
MOUNTAIN CAPITAL FUND, L.P.	\$ 2,134,747	56	\$ 1,585,705	42	\$ 1,442,724	42
FONTAINE CAPITAL FUND, L.P.	1,258,875	57	1,187,618	57	1,222,504	57
Others	1,094,793	-	1,107,816	-	988,662	-
Subtotal	4,488,415		3,881,139		3,653,890	
Investments in jointly controlled entities:						
Yuan Ke (Pingtan) Investment Fund Limited Partnership	8,793,332	81	8,830,819	81	11,336,149	81
Subtotal	8,793,332		8,830,819		11,336,149	
Total	\$ 13,281,747		\$ 12,711,958		\$ 14,990,039	

Although partial of the Company's ownership in the aforementioned investees were higher than 50%, those investees were Limited Partnership and the Company served as a Limited Partner which had no ability to direct the relevant activities of them. Therefore, the Company had no control over them and therefore they were not included in the consolidated entities.

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

A. Investments in associates

	Three months ended March 31	
	2019	2018
Loss from continuing operations	\$ (20,588)	\$ (10,777)
Other comprehensive income (post-tax)	2,767	15,305
Total comprehensive income	<u>\$ (17,821)</u>	<u>\$ 4,528</u>

B. Investments in jointly controlled entities

	Three months ended March 31	
	2019	2018
Profit from continuing operations	\$ 115,320	\$ 12,832
Other comprehensive income (post-tax)	-	-
Total comprehensive income	<u>\$ 115,320</u>	<u>\$ 12,832</u>

The associates and jointly controlled entities had no contingent liabilities or capital commitments and investments in associates and jointly controlled entities were not pledged as of March 31, 2019, December 31, 2018, and March 31, 2018.

(10)Property, plant and equipment

	March 31, 2019	December 31, 2018 (Note)	March 31, 2018 (Note)
Property, plant and equipment for own-use	<u>\$ 38,284,295</u>		

Note: The Company adopted IFRS 16 since January 1, 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

A. Property, plant and equipment for own-use (after the application of IFRS 16)

	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, 2019	\$ 5,486,945	\$ 28,032,356	\$ 1,231,413	\$ 5,881,516	\$ 8,900,423	\$ 2,113,288	\$ 1,702,221	\$ 53,348,162
Additions-acquired separately	-	43,097	61,210	355,653	431,376	94,409	224,053	1,209,798
Disposals	-	(102,315)	(44,896)	(46,963)	(27,482)	(72,730)	(1,622)	(296,008)
Transfers	-	(17,515)	(78,109)	428,885	115,951	(370,944)	(46,012)	32,256
Exchange differences	-	388,841	(183)	45,242	65,028	14,827	7,318	521,073
As of March 31, 2019	<u>\$ 5,486,945</u>	<u>\$ 28,344,464</u>	<u>\$ 1,169,435</u>	<u>\$ 6,664,333</u>	<u>\$ 9,485,296</u>	<u>\$ 1,778,850</u>	<u>\$ 1,885,958</u>	<u>\$ 54,815,281</u>
Depreciation and impairment:								
As of January 1, 2019	\$ -	\$ 4,320,989	\$ 590,632	\$ 4,212,213	\$ 5,418,395	\$ 1,202,347	\$ -	\$ 15,744,576
Depreciation	-	211,824	41,812	252,597	296,944	106,132	-	909,309
Disposals	-	(102,668)	(48,615)	(45,821)	(20,764)	(75,004)	-	(292,872)
Transfers	-	(13,591)	(64,319)	285,482	85,734	(239,100)	-	54,206
Exchange differences	-	25,607	(44)	34,318	45,857	10,029	-	115,767
As of March 31, 2019	<u>\$ -</u>	<u>\$ 4,442,161</u>	<u>\$ 519,466</u>	<u>\$ 4,738,789</u>	<u>\$ 5,826,166</u>	<u>\$ 1,004,404</u>	<u>\$ -</u>	<u>\$ 16,530,986</u>
Net carrying amount as of:								
March 31, 2019	<u>\$ 5,486,945</u>	<u>\$ 23,902,303</u>	<u>\$ 649,969</u>	<u>\$ 1,925,544</u>	<u>\$ 3,659,130</u>	<u>\$ 774,446</u>	<u>\$ 1,885,958</u>	<u>\$ 38,284,295</u>

Note: The Company adopted IFRS 16 since January 1, 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****B. Property, plant and equipment (prior to the application of IFRS 16)**

	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, 2018	\$ 5,196,705	\$27,212,618	\$ 1,425,053	\$ 5,689,417	\$ 7,602,174	\$ 2,305,629	\$ 846,426	\$ 50,278,022
Additions-acquired separately	-	770,925	8,096	119,116	382,325	89,897	365,258	1,735,617
Disposals	-	(1,682)	(187)	(24,378)	(22,376)	(92,037)	-	(140,660)
Transfers	290,240	125,865	12,004	(17,163)	(752)	10,746	(441,153)	(20,213)
Exchange differences	-	165,250	329	(7,208)	23,220	(19,121)	385	162,855
As of March 31, 2018	<u>\$ 5,486,945</u>	<u>\$28,272,976</u>	<u>\$ 1,445,295</u>	<u>\$ 5,759,784</u>	<u>\$ 7,984,591</u>	<u>\$ 2,295,114</u>	<u>\$ 770,916</u>	<u>\$ 52,015,621</u>
Depreciation and impairment:								
As of January 1, 2018	\$ -	\$ 3,543,549	\$ 535,742	\$ 3,407,765	\$ 4,496,269	\$ 1,356,057	\$ -	\$ 13,339,382
Depreciation	-	200,259	68,651	269,342	261,644	134,644	-	934,540
Disposals	-	(1,597)	(187)	(23,144)	(18,147)	(91,989)	-	(135,064)
Transfers	-	-	1,213	(17,163)	(1,214)	(30)	-	(17,194)
Exchange differences	-	6,383	(859)	(3,028)	14,327	(13,844)	-	2,979
As of March 31, 2018	<u>\$ -</u>	<u>\$ 3,748,594</u>	<u>\$ 604,560</u>	<u>\$ 3,633,772</u>	<u>\$ 4,752,879</u>	<u>\$ 1,384,838</u>	<u>\$ -</u>	<u>\$ 14,124,643</u>
Net carrying amount as of:								
December 31, 2018	<u>\$ 5,486,945</u>	<u>\$23,711,367</u>	<u>\$ 640,781</u>	<u>\$ 1,669,303</u>	<u>\$ 3,482,028</u>	<u>\$ 910,941</u>	<u>\$ 1,702,221</u>	<u>\$ 37,603,586</u>
March 31, 2018	<u>\$ 5,486,945</u>	<u>\$24,524,382</u>	<u>\$ 840,735</u>	<u>\$ 2,126,012</u>	<u>\$ 3,231,712</u>	<u>\$ 910,276</u>	<u>\$ 770,916</u>	<u>\$ 37,890,978</u>

Please refer to Note 8 for more details on property, plant and equipment 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)****(11) Investment property**

The Company's investment properties include both owned investment properties and investment properties held by the Company as right-of-use assets.

The Company has entered into commercial property leases for its owned investment properties with terms between 40 and 50 years. These leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions. The investment properties held by the Company as right-of-use assets with non-cancellable period of 3 to 50 years. Some of these contracts provide the Company options to extend the leases.

	Land	Buildings and facilities	Right-of-use assets (Note)	Total
Cost:				
As of January 1, 2019	\$ 201,536	\$ 808,452	\$ -	\$ 1,009,988
Additions from adoption of IFRS 16	-	-	63,946	63,946
Transfers	-	9,825	3,250	13,075
Exchange differences	-	15,761	202	15,963
As of March 31, 2019	<u>\$ 201,536</u>	<u>\$ 834,038</u>	<u>\$ 67,398</u>	<u>\$ 1,102,972</u>
As of January 1, 2018	\$ 201,536	\$ 739,274		\$ 940,810
Exchange differences	-	7,036		7,036
As of March 31, 2018	<u>\$ 201,536</u>	<u>\$ 746,310</u>		<u>\$ 947,846</u>
Depreciation and impairment:				
As of January 1, 2019	\$ -	\$ 92,645	\$ -	\$ 92,645
Depreciation	-	5,451	548	5,999
Transfers	-	1,014	19	1,033
Exchange differences	-	1,933	28	1,961
As of March 31, 2019	<u>\$ -</u>	<u>\$ 101,043</u>	<u>\$ 595</u>	<u>\$ 101,638</u>
As of January 1, 2018	\$ -	\$ 67,159		\$ 67,159
Depreciation	-	4,764		4,764
Exchange differences	-	708		708
As of March 31, 2018	<u>\$ -</u>	<u>\$ 72,631</u>		<u>\$ 72,631</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	Right-of-use assets (Note)	Total
Net carrying amount as of:				
March 31, 2019	\$ 201,536	\$ 732,995	\$ 66,803	\$ 1,001,334
December 31, 2018	\$ 201,536	\$ 715,807		\$ 917,343
March 31, 2018	\$ 201,536	\$ 673,679		\$ 875,215

Note: The Company adopted IFRS 16 since January 1, 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

	Three months ended March 31	
	2019	2018
Rental income from investment properties	\$ 29,180	\$ 22,084
Less:		
Direct operating expenses from investment properties generating rental income	(5,999)	(4,764)
Total	\$ 23,181	\$ 17,320

Please refer to Note 8 for more details on investment properties under pledge.

The following fair value has been determined at balance sheet date partially based on comparative approach, and partially based on the weighted average calculation of comparative approach and income approach valuations, which were performed by an independent valuer. The significant assumptions and the fair value are as follows:

Based on comparative approach:	March 31, 2019	December 31, 2018	March 31, 2018
Fair value	\$ 1,442,469	\$ 1,295,589	\$ 1,172,269
Based on comparative approach and income approach:	March 31, 2019	December 31, 2018	March 31, 2018
Fair value	\$ 263,076	\$ 263,076	\$ 262,578
Income capitalization rate	1.05%-3.24%	1.05%-3.24%	0.89%-2.64%

The fair values of investment properties were NT\$1,558,665 thousand and NT\$1,399,396 thousand as of December 31, 2018 and 2017, respectively. The Company's management assessed that the fair value of its investment properties did not change significantly in the three months ended March 31, 2019 and 2018.

For those right-of-use assets leased as operating leases and presented in investment properties, please refer to Note 6 (23) for relevant disclosure as required by IFRS 16.

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, 2019	\$ 772,487	\$ 3,540,539	\$ 5,114,146	\$ 10,712,618	\$ 65,462,080	\$ 85,601,870
Additions-acquired separately	-	54,532	-	64,302	-	118,834
Disposals	-	(38,394)	-	-	-	(38,394)
Transfers	-	(2,965,856)	-	3,015,972	-	50,116
Exchange differences	-	1,193	-	8,989	2,190	12,372
As of March 31, 2019	<u>\$ 772,487</u>	<u>\$ 592,014</u>	<u>\$ 5,114,146</u>	<u>\$ 13,801,881</u>	<u>\$ 65,464,270</u>	<u>\$ 85,744,798</u>
As of January 1, 2018	\$ 772,487	\$ 2,977,133	\$ 5,114,146	\$ 9,642,915	\$ 65,446,925	\$ 83,953,606
Additions-acquired separately	-	94,461	-	40,803	-	135,264
Disposals	-	(542)	-	-	-	(542)
Transfers	-	3,019	-	-	-	3,019
Exchange differences	-	476	-	(51,762)	(12,657)	(63,943)
As of March 31, 2018	<u>\$ 772,487</u>	<u>\$ 3,074,547</u>	<u>\$ 5,114,146</u>	<u>\$ 9,631,956</u>	<u>\$ 65,434,268</u>	<u>\$ 84,027,404</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, 2019	\$ 504,794	\$ 2,651,297	\$ 2,721,397	\$ 5,935,784	\$ -	\$ 11,813,272
Amortization	28,150	54,543	160,014	744,232	-	986,939
Disposals	-	(38,394)	-	-	-	(38,394)
Transfers	-	(2,420,412)	-	2,470,667	-	50,255
Exchange differences	-	40	-	3,273	-	3,313
As of March 31, 2019	<u>\$ 532,944</u>	<u>\$ 247,074</u>	<u>\$ 2,881,411</u>	<u>\$ 9,153,956</u>	<u>\$ -</u>	<u>\$ 12,815,385</u>
As of January 1, 2018	\$ 392,194	\$ 2,044,968	\$ 2,118,267	\$ 3,369,097	\$ -	\$ 7,924,526
Amortization	28,150	147,186	123,090	536,032	-	834,458
Disposals	-	(542)	-	-	-	(542)
Exchange differences	-	10	-	(17,394)	-	(17,384)
As of March 31, 2018	<u>\$ 420,344</u>	<u>\$ 2,191,622</u>	<u>\$ 2,241,357</u>	<u>\$ 3,887,735</u>	<u>\$ -</u>	<u>\$ 8,741,058</u>
Net carrying amount as of:						
March 31, 2019	<u>\$ 239,543</u>	<u>\$ 344,940</u>	<u>\$ 2,232,735</u>	<u>\$ 4,647,925</u>	<u>\$ 65,464,270</u>	<u>\$ 72,929,413</u>
December 31, 2018	<u>\$ 267,693</u>	<u>\$ 889,242</u>	<u>\$ 2,392,749</u>	<u>\$ 4,776,834</u>	<u>\$ 65,462,080</u>	<u>\$ 73,788,598</u>
March 31, 2018	<u>\$ 352,143</u>	<u>\$ 882,925</u>	<u>\$ 2,872,789</u>	<u>\$ 5,744,221</u>	<u>\$ 65,434,268</u>	<u>\$ 75,286,346</u>

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

The Company has no intangible assets with indefinite lives. Goodwill acquired through business combination has been allocated to a cash-generating unit 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, 2018. The Company did not identify any impairment of goodwill for the year ended December 31, 2018.

(14) Short-term borrowings

	March 31, 2019	December 31, 2018	March 31, 2018
Unsecured bank loans	\$ 58,554,743	\$ 51,056,528	\$ 56,625,391
Secured bank loans	-	-	6,075,078
Total	<u>\$ 58,554,743</u>	<u>\$ 51,056,528</u>	<u>\$ 62,700,469</u>
Interest rates	<u>1.00%-3.15%</u>	<u>1.00%-3.39%</u>	<u>1.55%-5.00%</u>

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

(15) Other payables

	March 31, 2019	December 31, 2018	March 31, 2018
Accrued salaries and bonuses	\$ 13,876,923	\$ 18,426,299	\$ 13,153,179
Accrued royalties	2,080,444	1,885,990	1,880,845
Others	8,389,008	10,169,490	11,337,860
Total	<u>\$ 24,346,375</u>	<u>\$ 30,481,779</u>	<u>\$ 26,371,884</u>

(16) Other current liabilities

	March 31, 2019	December 31, 2018	March 31, 2018
Refund liabilities	\$ 13,103,348	\$ 17,214,694	\$ 11,647,405
Others	129,480	297,649	245,997
Total	<u>\$ 13,232,828</u>	<u>\$ 17,512,343</u>	<u>\$ 11,893,402</u>

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(17) Long-term borrowings**

Details of long-term loans as of March 31, 2019 are as follows:

Lenders	March 31, 2019	Interest Rate (%)	Maturity date and terms of repayment
Unsecured long-term loan from Mega International Commercial Bank	\$ 3,333	1.79%	Effective from May 10, 2018, principal is repaid in 21 quarterly payments with monthly interest payments.
Secured long-term loan from Mega International Commercial Bank	24,286	1.79%	Effective from May 10, 2018, principal is repaid in 21 quarterly payments with monthly interest payments.
Secured long-term loan from Shin Kong Bank	239,525	1.40%	Effective from October 30, 2017, principal is repaid in 16 semi-annually payments with monthly interest payments.
Total	267,144		
Less: current portion	(36,850)		
Noncurrent portion	<u>\$ 230,294</u>		

Details of long-term loans as of December 31, 2018 are as follows:

Lenders	December 31, 2018	Interest Rate (%)	Maturity date and terms of repayment
Unsecured long-term loan from Mega International Commercial Bank	\$ 5,000	1.79%	Effective from May 10, 2018, principal is repaid in 21 quarterly payments with monthly interest payments.
Secured long-term loan from Mega International Commercial Bank	36,429	1.79%	Effective from May 10, 2018, principal is repaid in 21 quarterly payments with monthly interest payments.
Secured long-term loan from Shin Kong Bank	239,525	1.40%	Effective from October 30, 2017, principal is repaid in 16 semi-annually payments with monthly interest payments.
Total	280,954		
Less: current portion	(36,850)		
Noncurrent portion	<u>\$ 244,104</u>		

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

Details of long-term loans as of March 31, 2018 are as follows:

Lenders	March 31, 2018	Interest Rate (%)	Maturity date and terms of repayment
Unsecured long-term loan from Mega International Commercial Bank	\$ 11,667	1.79%	Effective from May 10, 2018, principle is repaid in 21 quarterly payments with monthly interest payments.
Secured long-term loan from Mega International Commercial Bank	85,000	1.79%	Effective from May 10, 2018, principle is repaid in 21 quarterly payments with monthly interest payments.
Secured long-term loan from Shin Kong Bank	276,375	1.40%	Effective from October 30, 2017, principle is repaid in 16 semi-annually payments with monthly interest payments.
Total	373,042		
Less: current portion	(36,850)		
Noncurrent portion	<u>\$ 336,192</u>		

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

(18) 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 March 31, 2019 and 2018 were NT\$480,571 thousand and NT\$445,227 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)

Defined benefits plan

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

Pension expenses under the defined benefits plan for the three months ended March 31, 2019 and 2018 were NT\$4,207 thousand and NT\$4,714 thousand, respectively.

(19) Equity

A. Share capital

MTK's authorized capital as of March 31, 2019, December 31, 2018, and March 31, 2018 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\$15,936,758 thousand, NT\$15,915,070 thousand, and NT\$15,814,371 thousand, divided into 1,593,675,765 shares, 1,591,506,977 shares, and 1,581,437,115 shares as of March 31, 2019, December 31, 2018, and March 31, 2018, respectively. Each share has one voting right and a right to receive dividends.

On June 15, 2018, the general shareholders' meeting approved to issue restricted stocks for employees. As of March 31, 2019, 14,465,438 shares of restricted stocks for employees were issued. Relevant regulators' approvals have been obtained and related registration processes have been completed.

MTK has redeemed and cancelled 37,100 shares of issued restricted stocks for employees during the three months ended March 31, 2019. Relevant regulators' approvals have been obtained and related registration processes have been completed.

MTK issued 17,633 new shares for the three months ended March 31, 2018, at par value of NT\$10 for exercising employee stock options. The aforementioned new issued shares (NT\$176 thousand in the amount) were not yet registered and therefore were classified as capital collected in advance as of March 31, 2018.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

B. Capital surplus

	March 31, 2019	December 31, 2018	March 31, 2018
Additional paid-in capital	\$ 80,196,061	\$ 80,196,101	\$ 83,771,931
Treasury share transactions	1,607,691	1,607,691	1,529,750
Changes in ownership interests in subsidiaries	1,185,125	1,185,125	1,146,807
Donated assets	1,261	1,261	1,261
Employee stock options	449,738	444,505	498,474
Restricted stocks for employees	1,916,405	1,600,453	1,124,575
Others	216,414	202,078	134,278
Total	<u>\$ 85,572,695</u>	<u>\$ 85,237,214</u>	<u>\$ 88,207,076</u>

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

C. Treasury shares

As of March 31, 2019, December 31, 2018, and March 31, 2018, 7,794,085 shares of MTK's common shares amounting to NT\$55,970 thousand were held by the subsidiary, MediaTek Capital Corp. These shares held by MediaTek Capital Corp. were acquired for the purpose of financing before the amendment of the Company Act on November 12, 2001.

As of March 31, 2019, December 31, 2018, and March 31, 2018, MTK did not hold any other treasury shares.

D. Retained earnings and dividend policy

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

- reserve for tax payments;
- offset accumulated losses in previous years, if any;
- 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;

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- 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 paid-in capital. The legal reserve can be used to offset the deficit of MTK. When MTK incurs no loss, it may distribute the portion of legal reserve which exceeds 25% of the paid-in capital by issuing new shares or by cash in proportion to the number of shares being held by each of the shareholders.

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

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

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

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

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

The appropriations of earnings for 2018 were resolved by the Board of Directors' meeting on April 30, 2019, subject to the resolution of general shareholders' meeting which will be held on June 14, 2019. The appropriations of earnings for 2017 were resolved by the general shareholders' meeting on June 15, 2018. The details of the distribution are as follows:

	<u>Appropriation of earnings</u>		<u>Dividends per share (NT\$)</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Legal reserve	\$ 2,076,050	\$ 2,433,260	-	-
Cash dividends-common stock	<u>9,525,233</u>	<u>11,844,548</u>	\$ 6.00	\$ 7.50
Total	<u>\$ 11,601,283</u>	<u>\$ 14,277,808</u>		

In addition, the Board of Directors' meeting on April 30, 2019 and the general shareholders' meeting on June 15, 2018 resolved to distribute the paid in capital by cash in the amount of NT\$4,762,617 thousand and NT\$3,948,182 thousand, or NT\$3.0 per share and NT\$2.5 per share, respectively.

E. Non-controlling interests

	<u>Three months ended March 31</u>	
	<u>2019</u>	<u>2018</u>
Beginning balance	\$ 1,379,686	\$ 1,387,370
Gains attributable to non-controlling interests	10,320	15,376
Other comprehensive income (losses), attributable to non-controlling interests, net of tax:		
Exchange differences resulting from translating the financial statements of foreign operations	<u>18,454</u>	<u>7,391</u>
Ending balance	<u>\$ 1,408,460</u>	<u>\$ 1,410,137</u>

(20) 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.

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

In 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 3,000,000 units, 3,500,000 units, 3,500,000 units, 3,500,000 units and 3,500,000 units, respectively, each unit eligible to subscribe for one common share. The options may be granted to qualified employees of MTK or any of its domestic or foreign subsidiaries, in which MTK's shareholding with voting rights, directly or indirectly, is more than fifty percent. The options are valid for ten years and exercisable at certain percentage subsequent to the second anniversary of the granted date. Under the terms of the plan, the options are granted at an exercise price equal to the closing price of MTK's common shares listed on the Taiwan Stock Exchange Corporation ("TWSE") on the grant date.

Detail information relevant to the share-based payment plan as of March 31, 2019 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)
2009.08.18	1,382,630	480,011	480,011	422.6
2010.08.27	1,605,757	608,927	608,927	398.4
2010.11.04	65,839	8,134	8,134	371.0
2011.08.24	2,109,871	1,018,927	1,018,927	273.0
2012.08.14	1,346,795	794,130	794,130	282.3
2013.08.22	1,436,343	994,610	994,610	368.0

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

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

	Employee Stock Option
Expected dividend yield (%)	2.43%-6.57%
Expected volatility (%)	32.9%-42.99%
Risk free interest rate (%)	0.93%-1.65%
Expected life (Years)	6.5 years

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

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

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

Employee Stock Option	Three months ended March 31			
	2019		2018	
	Weighted-average		Weighted-average	
	Options	Exercise Price	Options	Exercise Price
	(Unit)	per Share (NT\$)	(Unit)	per Share (NT\$)
Outstanding at beginning of period	3,931,486	\$ 337.6	4,681,103	\$ 340.4
Granted	-	-	-	-
Exercised	-	-	(17,633)	280.4
Forfeited (Expired)	(26,747)	349.7	(19,325)	357.2
Outstanding at end of period	<u>3,904,739</u>	337.2	<u>4,644,145</u>	340.6
Exercisable at end of period	<u>3,904,739</u>		<u>4,644,145</u>	
Weighted-average fair value of options granted during the period (in NT\$)	\$ -		\$ -	

The information on the outstanding share-based payment plan as of March 31, 2019 and 2018 is as follows:

Date of grant	Range of Exercise Price (NT\$)	March 31, 2019		March 31, 2018	
		Outstanding stock options		Outstanding stock options	
		Weighted- average Expected	Weighted- average Exercise Price	Weighted- average Expected	Weighted- average Exercise Price
		Remaining Years	per Share (NT\$)	Remaining Years	per Share (NT\$)
2009.07.27	422.6	-	422.6	-	426.5
2010.05.10	371.0-398.4	-	398.0	-	401.6
2011.08.09	273.0	-	273.0	-	275.5
2012.08.09	282.3	-	282.3	0.88	284.8
2013.08.09	368.0	0.92	368.0	1.92	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 and June 15, 2018, the shareholders' meeting approved to issue gratuitous restricted stocks for employees, at a total of 17,500,000 and 19,200,000 common shares. 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, 300,000, 12,259,550, and 2,205,888 gratuitous restricted stocks on September 6, 2016, July 17, 2017, September 6, 2018, and February 27, 2019, respectively. The issuance process was granted effective registration by the securities authority.

The fair value of the restricted stocks issued was NT\$254.5, NT\$254.5, NT\$255 and NT\$280 per share, respectively. The estimated compensation expenses amounted to NT\$2,749,762 thousand in total based on the vesting conditions and will be recognized during the vesting period. As of March 31, 2019, MTK had recognized NT\$1,411,874 thousand as compensation expense and NT\$1,337,888 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, with 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 years 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 the same as the common shares issued by MTK.
- 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)

Restriction on the rights and vesting conditions of restricted stocks for employees of 2018 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, with 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 34%, 33%, and 33% for the years ended 2019, 2020, and 2021, 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 the same as the common shares issued by MTK.
- E. The restricted stock for employees issued by MTK may be deposited in a security trust account.

Share-based payment plans of Subsidiaries

On May 21, 2018, Board of Directors of Airoha (Cayman) Inc. resolved to issue employee stock options with a total number of 486,873 units, each unit eligible to subscribe for one common share of Airoha (Cayman) Inc. The options may be granted to qualified employees of AiroTek (Shenzhen) Inc. and AiroTek (Chengdu) Inc. Airoha (Cayman) Inc. granted 486,873 units to employees on July 1, 2018. Total outstanding stock options of Airoha (Cayman) Inc. were 360,200 units as of March 31, 2019.

Restricted stocks plan for employees of Subsidiaries

On May 25, 2018, Airoha issued 3,128,995 non-gratuitous common stocks of Airoha (Cayman) Inc. to qualified employees of Airoha with subscription price of US\$3.48 per share. The lock-up period is from May 25, 2018 to December 31, 2021.

On June 15, 2018, Airoha issued 468,600 non-gratuitous common stocks of Airoha (Cayman) Inc. to qualified employees of Airoha with subscription price of US\$3.48 per share. The lock-up period is from June 15, 2018 to June 30, 2022.

On January 1, 2019, Airoha issued 189,600 non-gratuitous common stocks of Airoha (Cayman) Inc. to qualified employees of Airoha with subscription price of US\$3.48 per share. The lock-up periods is from January 1, 2019 to December 31, 2022.

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 restricted stocks issued were NT\$37.88, NT\$37.8 and NT\$127.24 per share, respectively. The estimated compensation expenses amounted to NT\$94,091 thousand in total based on the vesting conditions and will be recognized during the vesting period. As of March 31, 2019, Airoha had recognized NT\$20,644 thousand as compensation expense.

Restriction on the rights and vesting conditions of restricted stocks for employees of 2018 is as follows:

- A. To issue common shares of Airoha (Cayman) Inc. with non-gratuitous issue price.
- B. Employee's continuous employment with Airoha through the lock-up period and with no violation on any terms of Airoha's employment agreement, employee handbook, or policies during the lock-up period, are eligible to receive the vested shares in full at the end of lock-up period.
- 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.
- D. During the vesting period, the rights of proposal, speech, resolution and voting right, etc. in shareholders' meeting, and other affairs relevant to equity shall be executed by the custodian organization according to the trust contract.
- E. The restricted stock for employees issued by Airoha (Cayman) Inc. may be deposited in a security trust account.

Share-based compensation expenses recognized for employee services received for the three months ended March 31, 2019 and 2018, are shown in the following table:

	Three months ended March 31	
	2019	2018
Employee stock options	\$ 5,233	\$ -
Restricted stocks for employees	365,250	112,620
Total	<u>\$ 370,483</u>	<u>\$ 112,620</u>

The Company did not modify or cancel any share-based payment plans for the three months ended March 31, 2019 and 2018.

(21) Sales

	Three months ended March 31	
	2019	2018
Revenue from contracts with customers		
Sale of goods	\$ 51,952,652	\$ 48,797,653
Services and other operating revenues	769,240	856,334
Total	<u>\$ 52,721,892</u>	<u>\$ 49,653,987</u>

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

Analysis of revenue from contracts with customers for the three months ended March 31, 2019 and 2018 is as follows:

A. Disaggregation of revenue

	<u>Three months ended March 31</u>	
	<u>2019</u>	<u>2018</u>
Sale of goods	\$ 51,952,652	\$ 48,798,257
Services and other operating revenues	<u>769,240</u>	<u>855,730</u>
Total	<u>\$ 52,721,892</u>	<u>\$ 49,653,987</u>

Revenue recognition point:

At a point in time	\$ 52,045,293	\$ 48,860,524
Satisfies the performance obligation over time	<u>676,599</u>	<u>793,463</u>
Total	<u>\$ 52,721,892</u>	<u>\$ 49,653,987</u>

B. Contract balances**Contract liabilities - current**

	<u>March 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>	<u>March 31,</u> <u>2018</u>	<u>January 1,</u> <u>2018</u>
Sales of goods	\$ 2,090,909	\$ 1,265,696	\$ 978,700	\$ 1,057,970
Services and other operating revenues	<u>246,289</u>	<u>243,178</u>	<u>276,610</u>	<u>371,385</u>
Total	<u>\$ 2,337,198</u>	<u>\$ 1,508,874</u>	<u>\$ 1,255,310</u>	<u>\$ 1,429,355</u>

The significant changes in the Company's balances of contract liabilities for the three months ended March 31, 2019 and 2018 are as follows:

	<u>Three months ended March 31</u>	
	<u>2019</u>	<u>2018</u>
Revenue recognized during the period that was included in the beginning balance	<u>\$ 416,236</u>	<u>\$ 348,461</u>
Increase in receipt in advance during the period (deducting the amount incurred and transferred to revenue during the period)	<u>\$ 795,087</u>	<u>\$ 235,234</u>

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****C. Transaction price allocated to unsatisfied performance obligations**

As of March 31, 2019 and 2018, no disclosure of the unsatisfied performance obligations is needed as the contract terms with customers about the sales of goods are all shorter than one year. Besides, the summarized amounts of transaction price allocated to unsatisfied performance obligations about rendering of services are NT\$1,316,544 and NT\$579,488 thousand. The Company will recognize revenue with the stage of completion of the contracts. Those contracts are expected to complete within the next 1 to 2 years.

(22) Expected credit gains

	For the three months ended	
	March 31	
	2019	2018
Operating expenses – Expected credit gains		
Trade receivables	\$ 22,582	\$ 108,994

Please refer to Note 12 for more details on credit risk.

The Company measures the loss allowance of its receivables (including note receivables, trade receivables and trade receivables from related parties) at an amount equal to lifetime expected credit losses. The assessment of the Company's loss allowance as at March 31, 2019 and 2018 is as follow:

The Company considers the grouping of receivables by counterparties' credit ratings, geographical regions and industry sectors. Loss allowance is measured by using a provision matrix. Details are as follows:

2019.03.31

	Neither past due	Past due				
	(Note)	Within 30 days	31-60 days	61-90 days	After 90 days	Total
Gross carrying amount	\$ 24,773,555	\$ 440,543	\$ 44,638	\$ 16,570	\$ 112,651	\$ 25,387,957
Loss ratio	0%	0%	0%	0%-10%	20%-100%	
Lifetime expected credit losses	-	-	-	(1,653)	(83,265)	(84,918)
Carrying amount of trade receivables	\$ 24,773,555	\$ 440,543	\$ 44,638	\$ 14,917	\$ 29,386	\$ 25,303,039

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**2018.12.31

	Neither past due (Note)	Past due				Total
		Within 30 days	31-60 days	61-90 days	After 90 days	
Gross carrying amount	\$ 27,838,357	\$ 708,741	\$ 272,956	\$ 86,759	\$ 130,408	\$ 29,037,221
Loss ratio	0%	0%	0%	0%-10%	20%-100%	
Lifetime expected credit losses	-	-	-	(8,659)	(98,736)	(107,395)
Carrying amount of trade receivables	\$ 27,838,357	\$ 708,741	\$ 272,956	\$ 78,100	\$ 31,672	\$ 28,929,826

2018.03.31

	Neither past due (Note)	Past due				Total
		Within 30 days	31-60 days	61-90 days	After 90 days	
Gross carrying amount	\$ 24,652,539	\$ 485,470	\$ 128,963	\$ 534,467	\$ 248,809	\$ 26,050,248
Loss ratio	0%	0%	0%	10%	20%-100%	
Lifetime expected credit losses	-	-	-	(53,447)	(159,636)	(213,083)
Carrying amount of trade receivables	\$ 24,652,539	\$ 485,470	\$ 128,963	\$ 481,020	\$ 89,173	\$ 25,837,165

Note: The Company's note receivables and trade receivables from related parties are not overdue.

The movement in the provision for impairment of receivables for the three months ended March 31, 2019 and 2018 is as follows:

	Note receivables	Trade receivables (including related parties)
As of January 1, 2019	\$ -	\$ 107,395
Reversal for the current period	-	(22,582)
Effect of changes in exchange rate	-	105
As of March 31, 2019	\$ -	\$ 84,918

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

	Note receivables	Trade receivables (including related parties)
As of January 1, 2018 (in accordance with IAS 39)	\$ -	\$ 331,984
Beginning adjusted retained earnings	-	-
As of January 1, 2018 (in accordance with IFRS 9)	-	331,984
Reversal for the current period	-	(108,994)
Write off	-	(6,473)
Effect of changes in exchange rate	-	(3,434)
As of March 31, 2018	<u>\$ -</u>	<u>\$ 213,083</u>

(23) Leases**A. The Company as lessee (applicable to IFRS 16)**

The Company leases various property (land and buildings), transportation equipment and office equipment. These leases have terms between 1 and 50 years.

The effect that leases have on the financial position, financial performance and cash flows of the Company are as follows:

a. Amounts recognized in the balance sheet**(a) Right-of-use asset**

The carrying amount of right-of-use assets

	March 31, 2019	December 31, 2018 (Note)	March 31, 2018 (Note)
Land	\$ 1,805,805		
Buildings and facilities	1,196,015		
Transportation equipment	21,586		
Office equipment	5,192		
Total	<u>\$ 3,028,598</u>		

Note: The Company adopted IFRS 16 since January 1, 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

During the three months ended March 31, 2019, the additions to right-of-use assets of the Company amounted to NT\$432,272 thousand.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(b) Lease liability

	March 31, 2019	December 31, 2018 (Note)	March 31, 2018 (Note)
Lease liability-current	\$ 433,379		
Lease liability-noncurrent	2,527,781		
Total	<u>\$ 2,961,160</u>		

Please refer to Note 6 (27) for the interest on lease liability recognized during the three months ended March 31, 2019 and refer to Note 12 (2) C. for the maturity analysis for lease liabilities as at March 31, 2019.

Note: The Company adopted IFRS 16 since January 1, 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

b. Amounts recognized in the statement of profit or loss
Depreciation charge for right-of-use assets

	Three months ended March 31	
	2019	2018 (Note)
Land	\$ 12,147	
Buildings and facilities	97,752	
Transportation equipment	2,506	
Office equipment	521	
Total	<u>\$ 112,926</u>	

Note: The Company adopted IFRS 16 since January 1, 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

c. Income and costs relating to leasing activities

	Three months ended March 31	
	2019	2018 (Note)
The expense relating to short-term leases	<u>\$ 48,072</u>	
The expense relating to leases of low-value assets (Not including the expense relating to short-term leases of low-value assets)	<u>\$ 345</u>	
Income from subleasing right-of-use assets	<u>\$ 2,619</u>	

Note: The Company adopted IFRS 16 since January 1, 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

d. Cash outflow relating to leasing activities

During the three months ended March 31, 2019, the Company's total cash outflow for leases amounted to NT\$126,530 thousand.

B. Operating lease commitments - The Company as lessee (applicable to IAS 17)

The Company has entered into commercial leases. These leases have an average life of one to fifty years.

Future minimum rentals payable under non-cancellable operating leases as at December 31, 2018 and March 31, 2018 are as follows:

	March 31, 2019 (Note)	December 31, 2018	March 31, 2018
Not later than one year		\$ 554,748	\$ 566,969
Later than one year and not later than five years		1,068,478	825,994
Later than five years		285,697	334,143
Total		<u>\$ 1,908,923</u>	<u>\$ 1,727,106</u>

Operating lease expenses recognized are as follows:

	Three months ended March 31
	2019 (Note) 2018
Minimum lease payments	<u>\$ 171,410</u>

Note: The Company adopted IFRS 16 since January 1, 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

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

- (24) Summary statement of employee benefits, depreciation and amortization expenses by function for the three months ended March 31, 2019 and 2018:

	Three months ended March 31					
	2019			2018		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Pension	\$ 10,058	\$ 474,720	\$ 484,778	\$ 8,091	\$ 441,850	\$ 449,941
Others	\$ 253,766	\$ 10,658,997	\$ 10,912,763	\$ 183,078	\$ 10,039,385	\$ 10,222,463
Depreciation	\$ 44,276	\$ 983,958	\$ 1,028,234	\$ 53,651	\$ 885,653	\$ 939,304
Amortization	\$ 1,882	\$ 985,057	\$ 986,939	\$ 164	\$ 834,294	\$ 834,458

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

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

MTK accrued employees' compensation and remuneration to directors based on a specific rate of profit of the three months ended March 31, 2019, and 2018. 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. If the Board of Directors resolves to distribute employees' compensation in stock, the number of shares distributed is determined by dividing the amount of bonuses by the closing price (after considering the effect of cash and stock dividends) of shares on the day preceding the Board of Directors' meeting. The amounts of employees' compensation and remunerations to directors were NT\$47,745 thousand and NT\$4,834 thousand for the three months ended March 31, 2019, respectively. The amounts of employees' compensation and remunerations to directors were NT\$33,390 thousand and NT\$4,508 thousand for the three months ended March 31, 2018, respectively. The employees' compensation and remuneration to directors were recognized as salary expense.

A resolution was approved in a meeting of the Board of Directors held on March 22, 2019 to distribute NT\$261,021 thousand and NT\$31,624 thousand in cash as employees' compensation and remuneration to directors, respectively. There were no material differences between the aforementioned approved amounts and the amounts charged against earnings in 2018.

There was no material difference between the actual distribution amounts of employees' compensation and remuneration to directors and the amounts charged against earnings in 2017.

(25) Other income

	Three months ended March 31	
	2019	2018
Interest income		
Financial assets measured at amortized cost	\$ 887,219	\$ 681,257
Financial assets at fair value through other comprehensive income	133,620	115,746
Subtotal	1,020,839	797,003
Rental income	41,715	32,327
Dividend income	35,815	23,288
Others	77,414	37,446
Total	\$ 1,175,783	\$ 890,064

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

	Three months ended March 31	
	2019	2018 (Adjusted)
Losses on disposal of property, plant and equipment	\$ (193)	\$ (1,076)
Losses on disposal of investments		
Debt instruments measured at fair value through other comprehensive income	(16,119)	(5,013)
Foreign exchange gains (losses)	10,137	(28,030)
Impairment losses		
Investments accounted for using the equity method	-	(22,760)
Gains on financial assets at fair value through profit or loss (Note 1)	127,567	260,251
Losses on financial liabilities at fair value through profit or loss (Note 2)	(5,904)	(325)
Others	26,654	(51,661)
Total	<u>\$ 142,142</u>	<u>\$ 151,386</u>

Note:

1. Balances were arising from financial assets mandatorily measured at fair value through profit or loss.
2. Balances were arising from held for trading financial liabilities.

(27) Finance costs

	Three months ended March 31	
	2019	2018
Interest expenses on borrowings	\$ 436,227	\$ 407,185
Interest expenses on lease liabilities	13,223	(Note)
Total	<u>\$ 449,450</u>	<u>\$ 407,185</u>

Note: The Company adopted IFRS 16 since January 1, 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(28) Components of other comprehensive income

For the three months ended March 31, 2019:

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax expense	Other comprehensive income, net of tax
Not to be reclassified to profit or loss:					
Remeasurements of the defined benefit plan	\$ (15)	\$ -	\$ (15)	\$ -	\$ (15)
Unrealized gains from equity instrument investments measured at fair value through other comprehensive income	8,531,744	-	8,531,744	(808,241)	7,723,503
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	547,990	-	547,990	-	547,990
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	867,030	-	867,030	-	867,030
Unrealized gains from debt instrument investments measured at fair value through other comprehensive income	21,427	16,119	37,546	-	37,546
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	697	-	697	-	697
Total of other comprehensive income	\$ 9,968,873	\$ 16,119	\$ 9,984,992	\$ (808,241)	\$ 9,176,751

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 March 31, 2018 (Adjusted) :

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax expense	Other comprehensive income, net of tax
Not to be reclassified to profit or loss:					
Remeasurements of the defined benefit plan	\$ (52)	\$ -	\$ (52)	\$ (15,668)	\$ (15,720)
Unrealized gains from equity instrument investments measured at fair value through other comprehensive income	1,092,105	-	1,092,105	(123,335)	968,770
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	1,391,964	-	1,391,964	-	1,391,964
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	(1,269,868)	-	(1,269,868)	-	(1,269,868)
Unrealized gains from debt instrument investments measured at fair value through other comprehensive income	18,150	5,013	23,163	(16)	23,147
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(5,759)	-	(5,759)	-	(5,759)
Total of other comprehensive income	\$ 1,226,540	\$ 5,013	\$ 1,231,553	\$ (139,019)	\$ 1,092,534

Upon derecognition of the Company's debt instrument investments measured at fair value through other comprehensive income, the cumulative gain or loss of NT\$(16,119) thousand and NT\$(5,013) thousand for the three months ended March 31, 2019 and 2018 that recognized in other comprehensive income were 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)****(29) Income Tax**

Based on the amendments to the Income Tax Act announced on February 7, 2018, the Company's applicable corporate income tax rate for the year ended December 31, 2018 has changed from 17% to 20%. The corporate income surtax on undistributed retained earnings has changed from 10% to 5%.

The major components of income tax expense are as follows:

	Three months ended March 31	
	2019	2018
Current income tax expense:		
Current income tax charge	\$ 315,741	\$ 789,322
Deferred tax expense (income):		
Deferred tax expense relating to origination and reversal of temporary differences	837,559	101,793
Deferred tax expense (income) relating to origination and reversal of tax loss and tax credit	57,052	(197,985)
Deferred tax income relating to changes in tax rate or the imposition of new taxes	-	(447,634)
Deferred tax (income) expense arising from write-down or reversal of write-down of deferred tax asset	(90,146)	199,151
Tax income recognized in the periods for previously unrecognized tax credit or temporary difference of prior periods	(520,392)	-
Others	(11,105)	7,620
Income tax expense	<u>\$ 588,709</u>	<u>\$ 452,267</u>

Income tax recognized in other comprehensive income

	Three months ended March 31	
	2019	2018
Deferred tax expense:		
Remeasurements of the defined benefit plan	\$ -	\$ 15,668
Unrealized gains from equity instrument investments measured at fair value through other comprehensive income	808,241	123,335
Unrealized gains from debt instrument investments measured at fair value through other comprehensive income	-	16
Income tax relating to components of other comprehensive income	<u>\$ 808,241</u>	<u>\$ 139,019</u>

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

	<u>Three months ended March 31</u>	
	<u>2019</u>	<u>2018</u>
Current income tax expense:		
Realized gains from equity instrument		
investments measured at fair value through		
other comprehensive income	<u>\$ 143,685</u>	<u>\$ -</u>

The assessment of income tax returns

As of March 31, 2019, the assessment of the income tax returns of MTK and its material subsidiaries are as follows:

	<u>The assessment of income tax returns</u>	<u>Notes</u>
MTK	Assessed and approved up to 2016	(Note)
Subsidiary- Hsu-Ta Investment Corp.	Assessed and approved up to 2017	
Subsidiary- Hsu-Si Investment Corp.	Assessed and approved up to 2016	
Subsidiary- Richtek Technology Corp.	Assessed and approved up to 2016	

Note: MTK has applied for administrative appeals of the tax returns of 2016, 2015, 2014, 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.

(30) 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.

	<u>Three months ended March 31</u>	
	<u>2019</u>	<u>2018 (Adjusted)</u>
A. Basic earnings per share		
Profit attributable to ordinary equity owners of the parent (in thousand NT\$)	<u>\$ 3,405,702</u>	<u>\$ 2,519,245</u>
Weighted average number of ordinary shares outstanding for basic earnings per share (share)	<u>1,566,378,110</u>	<u>1,564,899,138</u>
Basic earnings per share (NT\$)	<u>\$ 2.17</u>	<u>\$ 1.61</u>

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

	Three months ended March 31	
	2019	2018 (Adjusted)
B. Diluted earnings per share		
Profit attributable to ordinary equity owners of the parent (in thousand NT\$)	\$ 3,405,702	\$ 2,519,245
Weighted average number of ordinary shares outstanding for basic earnings per share (share)	1,566,378,110	1,564,899,138
Effect of dilution:		
Employees' compensation-stock (share)	1,005,111	897,162
Employee stock options (share) (Note)	-	197,373
Restricted stocks for employees (share)	13,589,001	7,199,589
Weighted average number of ordinary shares outstanding after dilution (share)	1,580,972,222	1,573,193,262
Diluted earnings per share (NT\$)	\$ 2.15	\$ 1.60

Note: There were no dilutive employee stock options for the three months ended March 31, 2019.

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.

(31) Changes in ownership interests in subsidiariesChanges in ownership of subsidiaries

There have been no changes in ownership of subsidiaries for the three months ended March 31, 2019 and 2018.

Richnex Microelectronics Corp., EcoNet (Cayman) Inc. and Xiamen Sigmastar Technology Inc. increased their respective capital by cash for the year ended December 31, 2018, and the Company did not subscribe new shares proportionate to its original ownership interest. In addition, the Company purchased additional 20.45% of voting shares of Nephos (Hefei) Co. Ltd. in May 2018 and its ownership rose to 83%. As the control over those companies remained, the changes of the ownership interest were accounted for as an equity transaction.

Due to reorganization, Lepower (HK) Limited transferred its ownership of shares of Nephos (Beijing) Co. Ltd. to Nephos (Hefei) Co. Ltd. in September 2018. After that, the Company's ownership over Nephos (Beijing) Co. Ltd. went down to 83%. As the control over Nephos (Beijing) Co. Ltd. remained, the change of the ownership interest was accounted for as an equity transaction.

The difference between the fair value of purchased equity investments and the decrease in the non-controlling interest was NT\$1,341,544 thousand for the year ended December 31, 2018, which was recorded in equity.

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

Information of the related parties that had transactions with the Company during the financial reporting period is as follows:

Name and nature of relationship of the related parties

<u>Name of the related parties</u>	<u>Nature of relationship of the related parties</u>
E-Vehicle Semiconductor Technology Co., Ltd.	Associate (Note)
Intelligo Technology Inc.	Associate
King Yuan Electronics Co., Ltd. and its subsidiaries	Substantive related party
Andes Technology Corp.	Substantive related party

Note:

The Company lost control over E-Vehicle Semiconductor Technology Co., Ltd. on December 27, 2018, and the Company adopted the equity method for the investment. As a result, it has become an associate of the Company since that date.

Significant transactions with the related parties

(1) Sales

	<u>Three months ended March 31</u>	
	<u>2019</u>	<u>2018</u>
Associates		
Intelligo Technology Inc.	\$ 3,019	\$ -
E-Vehicle Semiconductor Technology Co., Ltd.	1,190	-
Total	<u>\$ 4,209</u>	<u>\$ -</u>

The trade credit terms for associates was 30 days and third-party customers was 30 to 150 days. Third-party customers may pay their accounts in advance.

(2) IC testing, experimental services, and manufacturing technology services

	<u>Three months ended March 31</u>	
	<u>2019</u>	<u>2018</u>
Other related parties		
King Yuan Electronics Co., Ltd. and its subsidiaries	<u>\$ 657,561</u>	<u>\$ 620,612</u>

The trade credit terms for related parties and third-party customers were both 60 to 75 days.

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

(3) Consign research and development expenses and license expenses

	Three months ended March 31	
	2019	2018
Other related parties		
Andes Technology Corp.	\$ 9,035	\$ 1,486

(4) Rental income

	Three months ended March 31	
	2019	2018
Andes Technology Corp.	\$ -	\$ 177

(5) Trade receivables from related parties

	March 31, 2019	December 31, 2018	March 31, 2018
Associates			
Intelligo Technology Inc.	\$ 2,691	\$ 2,855	\$ -
E-Vehicle Semiconductor Technology Co., Ltd.	5,000	3,750	-
Total	\$ 7,691	\$ 6,605	\$ -

(6) Trade payables to related parties

	March 31, 2019	December 31, 2018	March 31, 2018
Other related parties			
King Yuan Electronics Co., Ltd. and its subsidiaries	\$ 651,814	\$ 704,262	\$ 622,484

(7) Other payables to related parties

	March 31, 2019	December 31, 2018	March 31, 2018
Other related parties			
Andes Technology Corp.	\$ 4,524	\$ 459	\$ -

(8) Key management personnel compensation

	Three months ended March 31	
	2019	2018
Short-term employee benefits (Note)	\$ 206,290	\$ 212,296
Share-based payment	77,222	42,717
Post-employment benefits	934	877
Total	\$ 284,446	\$ 255,890

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

8. Assets Pledged as Collateral

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

Assets pledged as collateral	Carrying amount			Purpose of pledge
	March 31, 2019	December 31, 2018	March 31, 2018	
Financial assets measured at amortized cost-current	\$ -	\$ 9,705	\$ 9,705	Lease execution deposits
Financial assets measured at amortized cost-current	-	-	9,180	Customs clearance deposits
Financial assets measured at amortized cost-current	-	-	5,257	Performance bond
Financial assets measured at amortized cost-noncurrent	9,898	9,898	9,808	Lease execution deposits
Financial assets measured at amortized cost-noncurrent	111	110	112	Lease execution deposits
Financial assets measured at amortized cost-noncurrent	24,304	24,304	24,234	Customs clearance deposits
Financial assets measured at amortized cost-noncurrent	24,000	24,000	-	Customs clearance deposits
Financial assets measured at amortized cost-noncurrent	9,180	9,180	-	Customs clearance deposits
Financial assets measured at amortized cost-noncurrent	1,512	1,507	-	Customs clearance deposits
Financial assets measured at amortized cost-noncurrent	1,000	1,000	1,000	Customs clearance deposits
Financial assets measured at amortized cost-noncurrent	504	498	505	Customs clearance deposits
Financial assets measured at amortized cost-noncurrent	-	-	3,175	Customs clearance deposits
Financial assets measured at amortized cost-noncurrent	23,017	23,017	23,018	Land lease guarantee
Financial assets measured at amortized cost-noncurrent	7,000	7,000	7,000	Land lease guarantee
Financial assets measured at amortized cost-noncurrent	101,132	-	-	Performance bond
Financial assets measured at amortized cost-noncurrent	89,592	89,592	-	Performance bond
Financial assets measured at amortized cost-noncurrent	-	-	6,075,078	Short-term borrowing

(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)

	Carrying amount			Purpose of pledge
	March 31, 2019	December 31, 2018	March 31, 2018	
Assets pledged as collateral				
Property, plant and equipment - buildings and facilities	233,010	243,571	327,831	Long-term borrowing
Property, plant and equipment - buildings and land	325,166	326,434	330,238	Long-term borrowing
Investment property-buildings and facilities	159,894	152,577	78,976	Long-term borrowing
Total	<u>\$ 1,009,320</u>	<u>\$ 922,393</u>	<u>\$ 6,905,117</u>	

9. Contingencies and Off Balance Sheet Commitments**(1) Legal claim contingency**

A. Advanced Micro Devices, Inc. and ATI Technologies ULC (collectively “AMD”) filed a complaint with the U.S. International Trade Commission (the “Commission”) against MTK and subsidiary MediaTek USA Inc. on January 24, 2017, alleging infringement of United States Patent Nos. 7,633,506, 7,796,133, 8,760,454 and 9,582,846. On October 31, 2017, AMD’s motion to withdraw its claims relating to U.S. Patent Nos. 8,760,454 and 9,582,846 was granted. On August 22, 2018, the Commission issued a final determination, finding that the accused MTK and subsidiary MediaTek USA Inc., and VIZIO’s products infringe U.S. Patent No. 7,633,506, but do not infringe U.S. Patent No. 7,796,133, and issued a limited exclusion order for the relevant products. This final determination applies only to the Company’s chipsets using certain legacy GPUs, and thus it will not have a significant impact on MTK and subsidiary MediaTek USA Inc.’s overall business and operations. MTK and subsidiary MediaTek USA Inc. will continue to pursue relevant legal avenues to protect the company’s rights and interests.

On January 10, 2019, AMD filed a complaint in the United States District Court for the District of Delaware against MTK and subsidiary MediaTek USA Inc., alleging infringement of United States Patent Nos. 7,633,506 and 7,796,133. The operations of MTK and subsidiary MediaTek USA Inc. will not be materially affected by these cases.

B. American Patents LLC (“American Patents”) filed a complaint in the United States District Court for the Western District of Texas against MTK and subsidiary MediaTek USA Inc. on November 14, 2018, alleging infringement of United States Patent Nos. 6,964,001, 7,836,371, 8,239,716 and 8,996,938.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

On December 6, 2018, American Patents filed another complaint in the United States District Court for the Western District of Texas against MTK and subsidiary MediaTek USA Inc., alleging infringement of United States Patent Nos. 6,507,293, 6,587,058 and 7,262,720. The operations of MTK and subsidiary MediaTek USA Inc. will not be materially affected by these cases.

C. Dynamic Data Technologies, LLC (“Dynamic Data”) filed a complaint in the United States District Court for the District of Delaware against MTK, subsidiary MediaTek USA Inc., and subsidiary MStar Semiconductor, Inc. on November 30, 2018, alleging infringement of United States Patent Nos. 7,058,227, 6,639,944, 6,760,376 and 6,782,054. On March 6, 2019, Dynamic Data filed an amended complaint in this matter, alleging infringement by MTK and subsidiary MediaTek USA Inc. of United States Patent Nos. 6,639,944, 6,760,376, 6,774,918, 6,996,175, 6,996,177, 7,010,039, 7,894,529, 7,929,609, 7,982,799, 8,073,054, 8,135,073, 8,189,105 and 8,311,112. The operations of MTK and subsidiary MediaTek USA Inc. will not be materially affected by this case.

D. Innovative Foundry Technologies LLC (“IFT”) filed a complaint with the Commission against MTK, subsidiary MediaTek USA Inc., and subsidiary MStar Semiconductor, Inc. on February 15, 2019, alleging infringement of United States Patent Nos. 6,583,012, 6,797,572, 7,009,226, 7,880,236 and 9,373,548.

IFT filed a complaint in the United States District Court for the District of Delaware against MTK, subsidiary MediaTek USA Inc., and subsidiary MStar Semiconductor, Inc. on February 13, 2019, alleging infringement of the above referenced patents. This case has been stayed pending the conclusion of the aforementioned ITC action. The operations of MTK, subsidiary MediaTek USA Inc., and subsidiary MStar Semiconductor, Inc. (merged into MTK as of January 1, 2019) will not be materially affected by these cases.

The Company will handle these cases carefully.

10. Losses due to Major Disasters

None

11. Significant Subsequent Events

None

12. Others

(1) Financial instruments

A. Categories of 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)**Financial assets

	March 31, 2019	December 31, 2018	March 31, 2018 (Adjusted)
Financial assets at fair value through profit or loss:			
Held for trading financial assets	\$ 1,110	\$ 1,327	\$ -
Mandatorily measured at fair value through profit or loss (Note 1)	13,431,222	12,877,082	10,753,731
Subtotal	13,432,332	12,878,409	10,753,731
Financial assets at fair value through other comprehensive income	53,336,413	45,551,575	49,545,289
Financial assets measured at amortized cost (Note 2)	185,190,924	179,954,956	181,564,399
Total	<u>\$ 251,959,669</u>	<u>\$ 238,384,940</u>	<u>\$ 241,863,419</u>

Financial liabilities

Financial liabilities at fair value through profit or loss:			
Held for trading financial liabilities	\$ 5,904	\$ 4,932	\$ 325
Financial liabilities at amortized cost:			
Short-term borrowings	58,554,743	51,056,528	62,700,469
Trade payables (including related parties)	19,974,624	17,687,171	28,580,799
Other payables (including related parties)	24,350,899	30,482,238	26,371,884
Long-term payables (including current portion)	999,409	2,080,131	837,343
Long-term borrowings (including current portion)	267,144	280,954	373,042
Lease liabilities	2,961,160	(Note 3)	(Note 3)
Subtotal	107,107,979	101,587,022	118,863,537
Total	<u>\$ 107,113,883</u>	<u>\$ 101,591,954</u>	<u>\$ 118,863,862</u>

Notes:

1. Includes trade receivables classified as financial assets measured at fair value through profit or loss of NT\$1,848,395 thousand. Please refer to Note. 6 (5) for further explanation.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

2. Includes cash and cash equivalents (excluding cash on hand), financial assets measured at amortized cost, notes receivable, trade receivables (excluding financial assets measured at fair value through profit or loss of NT\$1,848,395 thousand. Please refer to Note. 6 (5) for further explanation) and other receivables.
3. The Company adopted IFRS 16 since January 1, 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

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 (including related parties), other receivables, short-term borrowings, trade payables (including related parties) and other payables (including related parties) 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) Fair value of equity instruments without market quotations (including private placement of listed equity securities, unquoted public company and private company equity securities) are estimated using the market method valuation techniques based on parameters such as prices based on market transactions of equity instruments of identical or comparable entities and other relevant information (for example, inputs such as discount for lack of marketability, P/E ratio of similar entities and Price-Book ratio of similar entities).
- (d) 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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- (e) 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

The carrying amount of the Company's financial assets and liabilities measured at amortized cost approximate their fair value.

c. Fair value measurement hierarchy

(a) Fair value measurement hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole. Level 1, 2 and 3 inputs are described as follows:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Input other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.

Level 3: Unobservable inputs for the assets or liabilities.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization at the end of each reporting period.

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

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

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**As of March 31, 2019

	Level 1	Level 2	Level 3	Total
<u>Assets measured at fair value:</u>				
Financial assets at fair value				
through profit or loss				
Bonds	\$ 459,225	\$ -	\$ 1,168,827	\$ 1,628,052
Forward exchange contracts	-	1,110	-	1,110
Linked deposits	406,860	262,484	4,486,849	5,156,193
Stocks	76,515	-	139,554	216,069
Funds	762,915	-	3,322,189	4,085,104
Trust funds	497,409	-	-	497,409
Financial assets at fair value				
through other comprehensive				
income				
Equity instruments measured at	29,617,038	3,650,504	17,735,419	51,002,961
fair value through other				
comprehensive income				
Debt instruments measured at	2,032,047	-	301,405	2,333,452
fair value through other				
comprehensive income				
Total	<u>\$ 33,852,009</u>	<u>\$ 3,914,098</u>	<u>\$ 27,154,243</u>	<u>\$ 64,920,350</u>

Liabilities measured at fair value:

Financial liabilities at fair value				
through profit or loss				
Forward exchange contracts	\$ -	\$ 5,904	\$ -	\$ 5,904

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 December 31, 2018

	Level 1	Level 2	Level 3	Total
<u>Assets measured at fair value:</u>				
Financial assets at fair value				
through profit or loss				
Bonds	\$ -	\$ -	\$ 1,382,544	\$ 1,382,544
Forward exchange contracts	-	1,327	-	1,327
Linked deposits	-	261,152	3,600,020	3,861,172
Stocks	74,504	-	136,008	210,512
Funds	750,297	-	2,412,451	3,162,748
Trust funds	394,617	-	-	394,617
Financial assets at fair value				
through other comprehensive				
income				
Equity instruments measured at				
fair value through other				
comprehensive income	24,219,462	2,536,328	16,650,973	43,406,763
Debt instruments measured at				
fair value through other	1,532,618	-	612,194	2,144,812
comprehensive income				
Total	<u>\$ 26,971,498</u>	<u>\$ 2,798,807</u>	<u>\$ 24,794,190</u>	<u>\$ 54,564,495</u>

Liabilities measured at fair value:

Financial liabilities at fair value				
through profit or loss				
Forward exchange contracts	\$ -	\$ 4,932	\$ -	\$ 4,932

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**As of March 31, 2018 (Adjusted)

	Level 1	Level 2	Level 3	Total
<u>Assets measured at fair value:</u>				
Financial assets at fair value				
through profit or loss				
Bonds	\$ 464,102	\$ -	\$ 1,484,359	\$ 1,948,461
Forward exchange contracts	-	815	-	815
Linked deposits	-	246,950	3,609,813	3,856,763
Stocks	-	-	122,410	122,410
Funds	744,670	-	1,262,354	2,007,024
Trust funds	416,479	-	-	416,479
Financial assets at fair value				
through other comprehensive				
income				
Equity instruments measured at				
fair value through other				
comprehensive income	18,456,102	10,366,155	14,528,216	43,350,473
Debt instruments measured at				
fair value through other				
comprehensive income	3,479,904	-	2,714,912	6,194,816
Total	<u>\$ 23,561,257</u>	<u>\$ 10,613,920</u>	<u>\$ 23,722,064</u>	<u>\$ 57,897,241</u>

Liabilities measured at fair value:

Financial liabilities at fair value

through profit or loss

Forward exchange contracts	\$ -	\$ 325	\$ -	\$ 325
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For the three months ended March 31, 2019, there was no transfers between Level 1 and Level 2 of the fair value hierarchy.

For the three months ended March 31, 2018, amount transferred from level 2 of the fair value hierarchy to level 1 due to the release of the stock transfer restrictions was NT\$13,873,945 thousand.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

Reconciliation for recurring fair value measurements in Level 3 of the fair value hierarchy during the period is as follows:

	Financial assets mandatorily measured at fair value				Financial assets at fair value through other			
	through profit or loss				comprehensive income			
	Stocks	Bonds	Funds	Link deposits	Bonds	Capital	Stocks	Total
As of January 1, 2019 \$	136,008	\$ 1,382,544	\$ 2,412,451	\$ 3,600,020	\$ 612,194	\$ 11,109,299	\$ 5,541,674	\$ 24,794,190
Amount recognized								
in profit or loss	(125)	1,819	11,829	55,569	7,094	-	-	76,186
Amount recognized								
in OCI	-	-	-	-	1,443	(220,551)	411,152	192,044
Amount recognized								
in OCI- exchange								
differences	3,671	14,805	67,050	10,687	9,225	74,163	15,708	195,309
Acquisitions	-	1,252	1,947,873	820,573	-	468,354	441,575	3,679,627
Settlements	-	(231,593)	(1,117,014)	-	(328,551)	-	(105,955)	(1,783,113)
As of March 31, 2019 \$	<u>139,554</u>	<u>\$ 1,168,827</u>	<u>\$ 3,322,189</u>	<u>\$ 4,486,849</u>	<u>\$ 301,405</u>	<u>\$ 11,431,265</u>	<u>\$ 6,304,154</u>	<u>\$ 27,154,243</u>

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

	Financial assets mandatorily measured at fair value				Financial assets at fair value through other			
	through profit or loss				comprehensive income			
	Stocks	Bonds	Funds	Link deposits	Bonds	Capital	Stocks	Total
As of January 1, 2018 \$	499,316	\$ 2,301,854	\$ 944,949	\$ 3,953,685	\$ 2,371,543	\$ 9,177,190	\$ 4,975,415	\$ 24,223,952
Amount recognized								
in profit or loss	362,851	15,577	4,778	10,052	51	-	-	393,309
Amount recognized								
in OCI	-	-	-	-	283	201,538	82,193	284,014
Amount recognized								
in OCI- exchange								
differences	(2,844)	(43,599)	11,127	(91,844)	18,164	(182,488)	(112,012)	(403,496)
Acquisitions	-	-	835,381	-	324,871	419,683	-	1,579,935
Settlements	(736,913)	(789,473)	(533,881)	(262,080)	-	-	(33,303)	(2,355,650)
As of March 31, 2018 \$	122,410	\$ 1,484,359	\$ 1,262,354	\$ 3,609,813	\$ 2,714,912	\$ 9,615,923	\$ 4,912,293	\$ 23,722,064

Total gains (losses) related to assets recognized for the three months ended March 31, 2019 and 2018 amounted to NT\$114,062 thousand and NT\$(51,690) thousand, respectively.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

As of March 31, 2019:

Not applicable

As of December 31, 2018:

Not applicable

As of March 31, 2018:

	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	20.36- 22.26	The higher the Price-Book ratio of similar entities, the higher the fair value estimated	10% increase (decrease) in the Price-Book ratio of similar entities would result in an increase (decrease) in profit or loss by NT\$1,740 thousand.

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

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

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

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

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

As of March 31, 2019

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets not measured at fair value but for which the fair value is disclosed:				
Investment property	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,705,545</u>	<u>\$ 1,705,545</u>

As of December 31, 2018

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets not measured at fair value but for which the fair value is disclosed:				
Investment property	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,558,665</u>	<u>\$ 1,558,665</u>

As of March 31, 2018

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets not measured at fair value but for which the fair value is disclosed:				
Investment property	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,434,847</u>	<u>\$ 1,434,847</u>

D. Derivative financial instruments

The Company's derivative financial instruments held for trading was 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:

<u>Forward exchange contracts</u>	<u>Currency</u>	<u>Contract amount ('000)</u>	<u>Maturity</u>
As of March 31, 2019	CNY to USD	Buy USD 8,647	April 2019
As of March 31, 2019	TWD to USD	Sell USD 20,000	April 2019
As of March 31, 2019	TWD to USD	Sell USD 4,000	May 2019
As of March 31, 2019	CNY to USD	Sell USD 11,781	April 2019
As of March 31, 2019	CNY to USD	Sell USD 3,000	May 2019
As of March 31, 2019	CNY to USD	Sell USD 3,000	June 2019
As of March 31, 2019	CNY to USD	Sell USD 2,000	August 2019
As of March 31, 2019	CNY to USD	Sell USD 2,000	September 2019

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

Forward exchange contracts	Currency	Contract amount (‘000)	Maturity
As of March 31, 2019	CNY to USD	Sell USD 2,000	October 2019
As of December 31, 2018	TWD to USD	Sell USD 107,000	January 2019
As of December 31, 2018	CNY to USD	Sell USD 4,000	January 2019
As of December 31, 2018	CNY to USD	Sell USD 2,000	February 2019
As of December 31, 2018	CNY to USD	Sell USD 2,000	March 2019
As of March 31, 2018	CNY to USD	Sell USD 2,000	April 2018
As of March 31, 2018	CNY to USD	Sell USD 2,000	May 2018
As of March 31, 2018	CNY to USD	Sell USD 1,000	June 2018
As of March 31, 2018	CNY to USD	Sell USD 2,000	July 2018

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 and policies

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 and Audit Committee 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. The information of the sensitivity analysis is as follows:

When NTD appreciates or depreciates against USD by 0.1%, the profit for the three months ended March 31, 2019 and 2018 increases/decreases by NT\$9,114 thousand and NT\$1,389 thousand, while equity decreases/increases by NT\$99,930 thousand and NT\$81,222 thousand, respectively.

When NTD appreciates or depreciates against CNY by 0.1%, the profit for the three months ended March 31, 2019 and 2018 decreases/increases by NT\$6 thousand and NT\$1 thousand, while equity decreases/increases by NT\$10,751 thousand and NT\$8,667 thousand, respectively.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

b. Interest rate risk

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

The interest rate sensitivity analysis is performed on items exposed to interest rate risk as of the end of the reporting period, including investments and bank borrowings with variable interest rates. At the reporting date, an increase/decrease of 10 basis points of interest rate in a reporting period could cause the profit for the three months ended March 31, 2019 and 2018 to increase/decrease by NT\$5,511 thousand and NT\$4,195 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 equity securities are classified under the category of equity instrument investments measured at fair value through profit or loss and equity instrument investments measured at fair value through other comprehensive income. 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 companies stocks classified under equity instrument investments measured at fair value through profit or loss could cause the profit or loss for the three months ended March 31, 2019 and 2018 to increase/decrease by NT\$765 thousand and NT\$0, respectively.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

A change of 1% in the price of the listed companies stocks classified under equity instrument investments measured at fair value through other comprehensive income could cause the other comprehensive income for the three months ended March 31, 2019 and 2018 to increase/decrease by NT\$332,676 thousand and NT\$288,223 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 counterparty will not meet its obligations under a contract, leading to a financial loss. The Company is exposed to credit risk from operating activities (primarily for trade receivables) and from its financing activities, including bank deposits and other financial instruments.

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

As of March 31, 2019, December 31, 2018, and March 31, 2018 receivables from top ten customers represented 42.92%, 44.28%, and 48.40% of the total trade receivables of the Company, respectively. The credit concentration risk of other accounts receivables was insignificant.

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

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

Credit risk of credit-linked deposits, interest rate-linked deposits, exchange-linked deposits, index-linked deposits 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.

The Company adopted IFRS 9 to assess the expected credit losses. Except for the loss allowance of trade receivables which is measured at lifetime expected credit losses, for debt instrument investments which are not measured at fair value through profit or loss and are at low credit risk upon acquisition, an assessment is made at each reporting date as to whether the credit risk has substantially increased in order to determine the method of measuring the loss allowance and the loss ratio. The measurement indicators of the Company are described as follows:

Level of credit risk	Indicator	Measurement method for expected credit losses	Carrying amount		
			March 31, 2019	December 31, 2018	March 31, 2018
Low credit risk	Credit risk measure belongs to IG category	12-month expected credit losses	\$ 5,011,422	\$ 4,942,322	\$ 6,255,179
	Counter parties with investment grade credit rating				
Credit risk significantly increased	Credit risk measure reduced from IG category to HY category	Lifetime expected credit losses	\$ 229,612	\$ 488,435	\$ 229,637
	Contract payment overdue 30 days				
Credit-impaired	Credit risk measure belongs to DS category or above	Lifetime expected credit losses	\$ -	\$ -	\$ -
	Contract payment overdue 90 days				
	Other impaired evidence				
Simplified method (Note)	(Note)	Lifetime expected credit losses	\$ 25,397,255	\$ 29,043,826	\$ 26,051,855

Note: The Company adopted simplified method (lifetime expected credit loss) to measure credit risk. It includes notes receivables and trade receivables (including related parties).

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 are written off when there is no realistic prospect of future recovery (the issuer or the debtor is in financial difficulties or bankruptcy).

When the credit risk on debt instrument investment has increased, the Company will dispose that investment in order to minimize the credit losses. When assessing the expected credit losses in accordance with IFRS 9, the evaluation of the forward-looking information (which available without undue cost and effort), it is mainly based on the macroeconomic information and industrial information and further adjusts the credit loss ratio if there is significant impact from forward-looking information.

C. Liquidity risk management

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

Non-derivative financial instruments

			Later than 5	
	Less than 1 year	1 to 5 years	years	Total
<u>As of March 31, 2019</u>				
Short-term borrowings	\$ 58,694,438	\$ -	\$ -	\$ 58,694,438
Trade payables (including related parties)	19,974,624	-	-	19,974,624
Other payables (including related parties)	24,278,510	-	-	24,278,510
Lease liabilities	433,379	988,934	1,538,847	2,961,160
Long-term borrowings	40,354	183,367	55,726	279,447
Long-term payables	393,863	605,546	-	999,409
Total	<u>\$ 103,815,168</u>	<u>\$ 1,777,847</u>	<u>\$ 1,594,573</u>	<u>\$ 107,187,588</u>

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

	Less than 1 year	1 to 5 years	Later than 5 years	Total
<u>As of December 31, 2018</u>				
Short-term borrowings	\$ 51,180,185	\$ -	\$ -	\$ 51,180,185
Trade payables (including related parties)	17,687,171	-	-	17,687,171
Other payables (including related parties)	30,422,092	-	-	30,422,092
Long-term borrowings	40,730	198,523	55,920	295,173
Long-term payables	1,398,956	681,175	-	2,080,131
Total	<u>\$ 100,729,134</u>	<u>\$ 879,698</u>	<u>\$ 55,920</u>	<u>\$ 101,664,752</u>

<u>As of March 31, 2018</u>				
Short-term borrowings	\$ 62,890,381	\$ -	\$ -	\$ 62,890,381
Trade payables (including related parties)	28,580,799	-	-	28,580,799
Other payables	26,268,975	-	-	26,268,975
Long-term borrowings	42,106	244,988	107,352	394,446
Long-term payables	-	837,343	-	837,343
Total	<u>\$ 117,782,261</u>	<u>\$ 1,082,331</u>	<u>\$ 107,352</u>	<u>\$ 118,971,944</u>

Derivative financial instruments

	Less than 1 year	1 to 5 years	Total
<u>As of March 31, 2019</u>			
Gross settlement			
Forward exchange contracts			
Inflow	\$ 980,676	\$ -	\$ 980,676
Outflow	(986,406)	-	(986,406)
Net	<u>(5,730)</u>	<u>-</u>	<u>(5,730)</u>
Net settlement			
Forward exchange contracts	(200)	-	(200)
Total	<u>\$ (5,930)</u>	<u>\$ -</u>	<u>\$ (5,930)</u>

As of December 31, 2018

Gross settlement			
Forward exchange contracts			
Inflow	\$ 123,547	\$ -	\$ 123,547
Outflow	(123,958)	-	(123,958)
Net	<u>\$ (411)</u>	<u>-</u>	<u>(411)</u>

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

	<u>Less than 1 year</u>	<u>1 to 5 years</u>	<u>Total</u>
Net settlement			
Forward exchange contracts	(7,262)	-	(7,262)
Total	<u>\$ (7,673)</u>	<u>\$ -</u>	<u>\$ (7,673)</u>

As of March 31, 2018

Gross settlement

Forward exchange contracts

Inflow	\$ 87,258	\$ -	\$ 87,258
Outflow	(87,360)	-	(87,360)
Net	<u>\$ (102)</u>	<u>\$ -</u>	<u>\$ (102)</u>

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

D. Reconciliation of liabilities arising from financing activities

Reconciliation of liabilities for three months ended March 31, 2019:

	<u>Short-term borrowings</u>	<u>Long-term borrowings</u>	<u>Lease Liabilities</u>	<u>Deposits received</u>	<u>Total liabilities from financing activities</u>
As of January 1, 2019	\$ 51,056,528	\$ 280,954	\$ 2,593,779	\$ 188,534	\$ 54,119,795
Cash flows	7,425,891	(13,810)	(64,890)	392,399	7,739,590
Non-cash movement	-	-	432,271	-	432,271
Foreign exchange movement	72,324	-	-	-	72,324
As of March 31, 2019	<u>\$ 58,554,743</u>	<u>\$ 267,144</u>	<u>\$ 2,961,160</u>	<u>\$ 580,933</u>	<u>\$ 62,363,980</u>

Reconciliation of liabilities for three months ended March 31, 2018:

	<u>Short-term borrowings</u>	<u>Long-term borrowings</u>	<u>Deposits received</u>	<u>Total liabilities from financing activities</u>
As of January 1, 2018	\$ 64,315,682	\$ 373,042	\$ 179,472	\$ 64,868,196
Cash flows	(1,287,081)	-	601	(1,286,480)
Foreign exchange movement	(328,132)	-	1,040	(327,092)
As of March 31, 2018	<u>\$ 62,700,469</u>	<u>\$ 373,042</u>	<u>\$ 181,113</u>	<u>\$ 63,254,624</u>

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:

March 31, 2019			
	Foreign Currency (thousand)	Exchange rate	NT\$ (thousand)
Financial assets			
Monetary item:			
USD	\$ 4,042,938	30.825	\$ 124,623,556
CNY	\$ 48,154	4.592	\$ 221,136
Non-monetary item:			
USD	\$ 1,652,093	30.825	\$ 50,925,780
CNY	\$ 2,311,460	4.592	\$ 10,614,801
Financial liabilities			
Monetary item:			
USD	\$ 2,717,062	30.825	\$ 83,753,419
CNY	\$ 17,268	4.592	\$ 79,300
December 31, 2018			
	Foreign Currency (thousand)	Exchange rate	NT\$ (thousand)
Financial assets			
Monetary item:			
USD	\$ 4,606,966	30.733	\$ 141,585,878
CNY	\$ 46,659	4.472	\$ 208,640
Non-monetary item:			
USD	\$ 1,400,154	30.733	\$ 43,030,931
CNY	\$ 1,955,409	4.472	\$ 8,743,728
Financial liabilities			
Monetary item:			
USD	\$ 2,525,021	30.733	\$ 77,601,503
CNY	\$ 462	4.472	\$ 2,063

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

	March 31, 2018		
	Foreign Currency (thousand)	Exchange rate	NT\$ (thousand)
Financial assets			
Monetary item:			
USD	\$ 4,422,905	29.120	\$ 128,795,005
CNY	\$ 69,458	4.641	\$ 322,352
Non-monetary item:			
USD	\$ 1,448,871	29.120	\$ 42,191,113
CNY	\$ 1,799,183	4.641	\$ 8,350,027
Financial liabilities			
Monetary item:			
USD	\$ 3,130,246	29.120	\$ 91,152,755
CNY	\$ 888	4.641	\$ 4,121

Functional currencies of entities of the Company are varied. Accordingly, the Company is not able to disclose the information of exchange gains and losses of monetary financial assets and liabilities by each significant assets and liabilities denominated in foreign currencies. The foreign exchange gains (losses) was NT\$10,137 thousand and NT\$(28,030) thousand for the three months ended March 31, 2019 and 2018, 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**(1) General information**

The major sales of the Company come from multimedia and mobile phone chips and other integrated circuit design products. The chief operating decision maker 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.