

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

MEDIATEK INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
WITH
REPORT OF INDEPENDENT ACCOUNTANTS
FOR THE NINE MONTHS ENDED
SEPTEMBER 30, 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 September 30, 2019 and 2018, the related consolidated statements of comprehensive income for the three-month and nine-month periods ended September 30, 2019 and 2018, changes in equity and cash flows for the nine-month periods ended September 30, 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 September 30, 2019 and 2018, their consolidated financial performance for the three-month and nine-month periods ended September 30, 2019 and 2018, and cash flows for the nine-month periods ended September 30, 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
October 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 September 30, 2019, December 31, 2018, and September 30, 2018
(September 30, 2019 and 2018 are unaudited)
(Amounts in thousands of New Taiwan Dollars)

ASSETS	Notes	September 30, 2019	%	December 31, 2018	%	September 30, 2018 (Adjusted)	%
Current assets							
Cash and cash equivalents	6(1)	\$ 155,972,134	34	\$ 143,170,245	36	\$ 147,951,467	35
Financial assets at fair value through profit or loss-current	6(2)	7,315,934	2	5,026,696	1	5,401,750	1
Financial assets at fair value through other comprehensive income-current	6(3)	42,237,386	9	13,468,075	3	14,578,280	3
Financial assets measured at amortized cost-current	6(4), 8	260,565	-	3,005,650	1	2,577,585	1
Notes receivables, net	6(22)	13,223	-	2,950	-	4,190	-
Trade receivables, net	6(5), 6(22)	30,432,201	7	28,929,826	7	32,994,304	8
Trade receivables from related parties, net	6(5), 6(22), 7	5,000	-	6,605	-	-	-
Other receivables	6(6)	7,050,371	2	8,229,716	2	9,483,597	2
Current tax assets	4, 6(29)	704,196	-	910,984	-	938,504	-
Inventories, net	6(7)	31,028,056	7	30,979,767	8	38,008,431	9
Prepayments	6(8), 7	2,119,327	-	1,523,281	1	2,160,919	1
Other current assets		1,093,096	-	783,729	-	996,344	-
Total current assets		278,231,489	61	236,037,524	59	255,095,371	60
Non-current assets							
Financial assets at fair value through profit or loss-noncurrent	6(2)	6,349,535	1	3,986,224	1	3,322,079	1
Financial assets at fair value through other comprehensive income-noncurrent	6(3)	30,873,825	7	32,083,500	8	31,610,680	7
Financial assets measured at amortized cost-noncurrent	6(4), 8	1,015,904	-	480,106	-	369,582	-
Investments accounted for using the equity method	6(9)	18,206,677	4	12,711,958	3	14,591,224	4
Property, plant and equipment	6(10), 8	38,265,431	9	37,603,586	10	37,422,441	9
Right-of-use assets	4, 6(23)	3,001,021	1	-	-	-	-
Investment property, net	6(11), 8	960,812	-	917,343	-	919,669	-
Intangible assets	6(12), 6(13)	71,883,654	16	73,788,598	18	74,093,031	18
Deferred tax assets	4, 6(29)	4,807,581	1	4,776,271	1	4,903,800	1
Refundable deposits		280,313	-	288,449	-	265,926	-
Net defined benefit assets-noncurrent	4, 6(18)	14,825	-	14,825	-	2,108	-
Long-term prepaid rent		-	-	147,660	-	147,638	-
Total non-current assets		175,659,578	39	166,798,520	41	167,648,178	40
Total assets		<u>\$ 453,891,067</u>	<u>100</u>	<u>\$ 402,836,044</u>	<u>100</u>	<u>\$ 422,743,549</u>	<u>100</u>

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 September 30, 2019, December 31, 2018, and September 30, 2018
(September 30, 2019 and 2018 are unaudited)
(Amounts in thousands of New Taiwan Dollars)

LIABILITIES AND EQUITY	Notes	September 30, 2019	%	December 31, 2018	%	September 30, 2018 (Adjusted)	%
Current liabilities							
Short-term borrowings	6(14)	\$ 54,701,004	12	51,056,528	13	63,890,772	15
Financial liabilities at fair value through profit or loss-current	6(2)	10,571	-	4,932	-	14,930	-
Contract liabilities-current	6(21)	2,521,778	1	1,508,874	-	1,933,008	1
Trade payables		22,157,857	5	16,982,909	4	24,309,894	6
Trade payables to related parties	7	943,588	-	704,262	-	967,252	-
Other payables	6(15)	27,155,298	6	30,481,779	8	29,252,146	7
Other payables to related parties	7	2,948	-	459	-	307	-
Current tax liabilities	4, 5, 6(29)	1,991,537	-	2,904,187	1	3,040,091	1
Lease liabilities-current	4, 6(23)	497,217	-	-	-	-	-
Other current liabilities	6(16)	17,653,411	4	17,512,343	4	20,251,008	5
Current portion of long-term liabilities	6(17), 8	886,565	-	1,435,806	1	1,431,056	-
Total current liabilities		128,521,774	28	122,592,079	31	145,090,464	35
Non-current liabilities							
Long-term borrowings	6(17), 8	198,060	-	244,104	-	290,148	-
Long-term payables		616,518	-	681,175	-	677,141	-
Net defined benefit liabilities-noncurrent	4, 6(18)	809,967	-	819,631	-	663,567	-
Deposits received		575,947	-	188,534	-	207,617	-
Deferred tax liabilities	4, 5, 6(29)	6,500,601	2	2,973,703	1	2,897,994	1
Lease liabilities-noncurrent	4, 6(23)	2,463,339	1	-	-	-	-
Non-current liabilities-others		1,374,996	-	1,010,911	-	1,000,034	-
Total non-current liabilities		12,539,428	3	5,918,058	1	5,736,501	1
Total liabilities		141,061,202	31	128,510,137	32	150,826,965	36
Equity attributable to owners of the parent							
Share capital	6(19)						
Common stock		15,896,912	4	15,915,070	4	15,915,196	4
Capital collected in advance		1,745	-	-	-	-	-
Capital surplus	6(19), 6(20), 6(31)	82,275,489	18	85,237,214	21	87,215,905	21
Retained earnings	6(19)						
Legal reserve		41,507,689	9	39,431,639	10	39,431,639	9
Undistributed earnings		118,256,224	26	108,577,764	27	103,996,797	25
Other equity	6(20)	53,393,013	12	23,840,504	6	23,977,361	5
Treasury shares	6(19)	(55,970)	-	(55,970)	-	(55,970)	-
Equity attributable to owners of the parent		311,275,102	69	272,946,221	68	270,480,928	64
Non-controlling interests	6(19), 6(31)	1,554,763	-	1,379,686	-	1,435,656	-
Total equity		312,829,865	69	274,325,907	68	271,916,584	64
Total liabilities and equity		\$ 453,891,067	100	\$ 402,836,044	100	\$ 422,743,549	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 nine months ended September 30, 2019 and 2018

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

Description	Notes	Three Months Ended September 30				Nine Months Ended September 30			
		2019	%	2018 (Adjusted)	%	2019	%	2018 (Adjusted)	%
Net sales	6(21)	\$ 67,224,354	100	\$ 67,030,146	100	\$ 181,513,352	100	\$ 177,165,465	100
Operating costs	6(7),6(24),7	(38,934,446)	(58)	(41,205,611)	(61)	(105,960,251)	(58)	(109,143,497)	(62)
Gross profit		28,289,908	42	25,824,535	39	75,553,101	42	68,021,968	38
Operating expenses	6(22),6(23),6(24),7								
Selling expenses		(3,023,989)	(5)	(3,064,590)	(5)	(7,761,254)	(4)	(8,149,791)	(4)
Administrative expenses		(1,646,627)	(2)	(1,716,398)	(3)	(4,866,805)	(3)	(5,206,659)	(3)
Research and development expenses		(16,590,241)	(25)	(14,889,998)	(22)	(46,604,213)	(26)	(42,478,439)	(24)
Expected credit gains		257	-	156,341	-	20,426	-	144,584	-
Total operating expenses		(21,260,600)	(32)	(19,514,645)	(30)	(59,211,846)	(33)	(55,690,305)	(31)
Operating income		7,029,308	10	6,309,890	9	16,341,255	9	12,331,663	7
Non-operating income and expenses									
Other income	6(25),7	1,228,215	2	1,558,940	2	3,742,696	2	3,640,482	2
Other gains and losses	6(26)	120,921	-	105,343	-	1,182,326	1	4,129,261	3
Finance costs	6(27)	(355,045)	-	(448,215)	-	(1,272,763)	(1)	(1,296,117)	(1)
Share of profit of associates accounted for using the equity method	6(9)	(76,474)	-	(13,261)	-	(21,284)	-	392,968	-
Total non-operating income and expenses		917,617	2	1,202,807	2	3,630,975	2	6,866,594	4
Net income before income tax		7,946,925	12	7,512,697	11	19,972,230	11	19,198,257	11
Income tax expense	4, 6(29)	(1,044,544)	(2)	(779,406)	(1)	(3,150,983)	(2)	(2,491,491)	(1)
Net income		6,902,381	10	6,733,291	10	16,821,247	9	16,706,766	10
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 (losses) from equity instrument investments measured at fair value through other comprehensive income		15,335,961	23	6,351,624	9	33,357,510	18	254,226	-
Share of other comprehensive income of associates and joint ventures accounted for using the equity method		4,393,795	6	73,877	-	5,422,574	3	792,533	-
Income tax relating to those items not to be reclassified to profit or loss		(1,539,252)	(2)	(437,520)	(1)	(3,255,835)	(2)	153,716	-
Items that may be reclassified subsequently to profit or loss									
Exchange differences resulting from translating the financial statements of foreign operations		(1,659,244)	(2)	(1,058,140)	(1)	(700,826)	-	383,617	-
Unrealized gains (losses) from debt instrument investments measured at fair value through other comprehensive income		(7,045)	-	(15,604)	-	35,806	-	(7,790)	-
Share of other comprehensive income of associates and joint ventures accounted for using the equity method		(164,660)	-	(4,108)	-	(246,480)	-	(13,491)	-
Other comprehensive income, net of tax		16,359,555	25	4,910,129	7	34,612,734	19	1,562,759	-
Total comprehensive income		\$ 23,261,936	35	\$ 11,643,420	17	\$ 51,433,981	28	\$ 18,269,525	10
Net income (loss) for the periods attributable to :									
Owners of the parent	6(30)	\$ 6,870,577		\$ 6,738,507		\$ 16,706,399		\$ 16,637,258	
Non-controlling interests	6(31)	31,804		(5,216)		114,848		69,508	
		<u>\$ 6,902,381</u>		<u>\$ 6,733,291</u>		<u>\$ 16,821,247</u>		<u>\$ 16,706,766</u>	
Total comprehensive income for the periods attributable to :									
Owners of the parent		\$ 23,252,465		\$ 11,667,240		\$ 51,333,955		\$ 18,213,385	
Non-controlling interests		9,471		(23,820)		100,026		56,140	
		<u>\$ 23,261,936</u>		<u>\$ 11,643,420</u>		<u>\$ 51,433,981</u>		<u>\$ 18,269,525</u>	
Basic Earnings Per Share (in New Taiwan Dollars)	6(30)	\$ 4.38		\$ 4.30		\$ 10.66		\$ 10.63	
Diluted Earnings Per Share (in New Taiwan Dollars)	6(30)	\$ 4.35		\$ 4.29		\$ 10.58		\$ 10.58	

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 CHANGES IN EQUITY
For the nine months ended September 30, 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	
Appropriation and distribution of 2017 earnings:														
Legal reserve	-	-	-	2,433,260	(2,433,260)	-	-	-	-	-	-	-	-	
Cash dividends	-	-	-	-	(11,844,548)	-	-	-	-	-	(11,844,548)	-	(11,844,548)	
Total	-	-	-	2,433,260	(14,277,808)	-	-	-	-	-	(11,844,548)	-	(11,844,548)	
Cash dividends distributed from capital surplus	-	-	(3,948,182)	-	-	-	-	-	-	-	(3,948,182)	-	(3,948,182)	
Profit for the nine months ended September 30, 2018 (Adjusted)	-	-	-	-	16,637,258	-	-	-	-	-	16,637,258	69,508	16,706,766	
Other comprehensive income for the nine months ended September 30, 2018 (Adjusted)	-	-	-	-	(14,500)	383,494	1,207,133	-	-	-	1,576,127	(13,368)	1,562,759	
Total comprehensive income	-	-	-	-	16,622,758	383,494	1,207,133	-	-	-	18,213,385	56,140	18,269,525	
Share-based payment transactions	447	(231)	20,101	-	-	-	-	-	-	-	20,317	-	20,317	
Adjustments due to dividends that subsidiaries received from parent company	-	-	77,941	-	-	-	-	-	-	-	77,941	-	77,941	
The differences between the fair value of the consideration paid or received from acquiring or disposing subsidiaries and the carrying amounts of the subsidiaries	-	-	-	-	(1,379,861)	-	-	-	-	-	(1,379,861)	(206,070)	(1,585,931)	
Changes in ownership interests in subsidiaries	-	-	(50,827)	-	(28,936)	-	-	-	-	-	(79,763)	58,021	(21,742)	
Issuance of restricted stock for employees	100,609	-	2,911,415	-	12,737	-	-	-	(2,512,929)	-	511,832	-	511,832	
Changes in other capital surplus	-	-	(5,362)	-	-	-	-	-	-	-	(5,362)	-	(5,362)	
Proceeds from disposal of equity instruments measured at fair value through other comprehensive income	-	-	-	-	197,625	-	(197,625)	-	-	-	-	-	-	
Non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	140,195	140,195	
Balance as of September 30, 2018	\$ 15,915,196	\$ -	\$ 87,215,905	\$ 39,431,639	\$ 103,996,797	\$ (1,866,794)	\$ 28,954,899	\$ -	\$ (3,110,744)	\$ (55,970)	\$ 270,480,928	\$ 1,435,656	\$ 271,916,584	
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	
Appropriation and distribution of 2018 earnings:														
Legal reserve	-	-	-	2,076,050	(2,076,050)	-	-	-	-	-	-	-	-	
Cash dividends	-	-	-	-	(9,525,233)	-	-	-	-	-	(9,525,233)	-	(9,525,233)	
Total	-	-	-	2,076,050	(11,601,283)	-	-	-	-	-	(9,525,233)	-	(9,525,233)	
Cash dividends distributed from capital surplus	-	-	(4,762,617)	-	-	-	-	-	-	-	(4,762,617)	-	(4,762,617)	
Profit for the nine months ended September 30, 2019	-	-	-	-	16,706,399	-	-	-	-	-	16,706,399	114,848	16,821,247	
Other comprehensive income for the nine months ended September 30, 2019	-	-	-	-	(15)	(932,484)	35,560,055	-	-	-	34,627,556	(14,822)	34,612,734	
Total comprehensive income	-	-	-	-	16,706,384	(932,484)	35,560,055	-	-	-	51,333,955	100,026	51,433,981	
Share-based payment transactions	-	1,745	(18,888)	-	-	-	-	-	-	-	(17,143)	53,411	36,268	
Adjustments due to dividends that subsidiaries received from parent company	-	-	70,147	-	-	-	-	-	-	-	70,147	-	70,147	
The differences between the fair value of the consideration paid or received from acquiring or disposing subsidiaries and the carrying amounts of the subsidiaries	-	-	-	-	(540,266)	-	-	-	-	-	(540,266)	21,640	(518,626)	
Changes in ownership interests in subsidiaries	-	-	(11,520)	-	-	-	-	-	-	-	(11,520)	-	(11,520)	
Issuance of restricted stock for employees	(18,158)	-	1,699,510	-	37,144	-	-	-	1,419	-	1,719,915	-	1,719,915	
Changes in other capital surplus	-	-	61,643	-	-	-	-	-	-	-	61,643	-	61,643	
Proceeds from disposal of equity instruments measured at fair value through other comprehensive income	-	-	-	-	5,076,481	-	(5,076,481)	-	-	-	-	-	-	
Balance as of September 30, 2019	\$ 15,896,912	\$ 1,745	\$ 82,275,489	\$ 41,507,689	\$ 118,256,224	\$ (2,154,826)	\$ 56,911,918	\$ -	\$ (1,364,079)	\$ (55,970)	\$ 311,275,102	\$ 1,554,763	\$ 312,829,865	

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 nine months ended September 30, 2019 and 2018
(Amounts in thousands of New Taiwan Dollars)

Description	Nine Months Ended September 30	
	2019	2018 (Adjusted)
Cash flows from operating activities :		
Profit before tax from continuing operations	\$ 19,972,230	\$ 19,198,257
Adjustments for:		
The profit or loss items which did not affect cash flows:		
Depreciation	3,143,098	2,798,803
Amortization	3,062,644	2,660,533
Expected credit gains	(20,426)	(144,584)
Gains on financial assets and liabilities at fair value through profit or loss	(139,344)	(293,244)
Interest expenses	1,272,763	1,296,117
Gains on derecognition of financial assets measured at amortized cost	(114,296)	(26,183)
Interest income	(3,160,903)	(2,828,336)
Dividend income	(255,552)	(564,514)
Share-based payment expenses	1,698,684	502,920
Share of profit of associates accounted for using the equity method	21,284	(392,968)
Losses on disposal of property, plant and equipment	13,699	5,673
Property, plant and equipment transferred to expenses	3,159	1,618
Losses on disposal of intangible assets	22,936	-
Gains on disposal of non-current assets held for sale	(813,152)	(3,460,483)
Losses on disposal of investments	16,119	5,653
Impairment of non-financial assets	-	22,760
Others	121	-
Changes in operating assets and liabilities:		
Financial assets mandatorily measured at fair value through profit or loss	(4,317,293)	1,309,395
Notes receivables	(10,273)	(1,379)
Trade receivables	(1,432,798)	(7,614,139)
Trade receivables from related parties	1,605	-
Other receivables	(814,477)	(1,240,512)
Inventories	(65,569)	(11,521,147)
Prepayments	(635,437)	(775,734)
Other current assets	(309,367)	604,280
Contract liabilities	1,012,904	503,653
Trade payables	8,239,300	4,685,422
Trade payables to related parties	239,326	395,659
Other payables	(2,394,078)	(2,267,704)
Other payables to related parties	2,489	307
Other current liabilities	57,436	8,779,698
Net defined benefit liabilities	(9,679)	6,415
Non-current liabilities-others	(100,900)	198,723
Cash generated from operating activities:		
Interest received	2,705,909	2,614,923
Dividend received	350,419	1,025,063
Interest paid	(1,261,313)	(1,290,791)
Income tax paid	(2,963,384)	(2,554,710)
Net cash provided by operating activities	23,017,884	11,639,444
Cash flows from investing activities :		
Acquisition of financial assets at fair value through other comprehensive income	(2,536,295)	(1,729,231)
Proceeds from disposal of financial assets at fair value through other comprehensive income	8,093,666	11,738,658
Proceeds from capital return of financial assets at fair value through other comprehensive income	-	231,357
Acquisition of financial assets measured at amortized cost	(796,367)	(7,964,745)
Proceeds from redemption of financial assets measured at amortized cost	3,029,008	7,203,124
Acquisition of investments accounted for using the equity method	(139,689)	(603,615)
Proceeds from disposal of investments accounted for using the equity method	7,956	-
Proceeds from disposal of non-current assets held for sale	-	4,729,801
Acquisition of property, plant and equipment	(4,165,717)	(3,723,726)
Proceeds from disposal of property, plant and equipment	8,243	5,821
Decrease in refundable deposits	8,136	53,808
Acquisition of intangible assets	(2,128,951)	(1,772,785)
Decrease in long-term prepaid rent	-	7,313
Net cash provided by investing activities	1,379,990	8,175,780
Cash flows from financing activities :		
Increase (decrease) in short-term borrowings	3,401,559	(612,598)
Repayment of long-term borrowings	(46,044)	(46,044)
Increase in deposits received	387,413	28,145
Cash payment for the principal portion of the lease liabilities	(286,322)	-
Proceeds from exercise of employee stock options	49,052	6,052
Cash dividends	(14,161,949)	(15,697,824)
Acquisition of ownership interests in subsidiaries	(526,382)	(1,585,931)
Disposal of ownership interests in subsidiaries (without losing control)	2,281	-
Change in non-controlling interests	(11,520)	151,715
Net cash used in financing activities	(11,191,912)	(17,756,485)
Effect of changes in exchange rate on cash and cash equivalents	(404,073)	554,352
Net increase in cash and cash equivalents	12,801,889	2,613,091
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	\$ 155,972,134	\$ 147,951,467

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 October 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. The new definition has no significant impact on the Company.
- 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 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 be accounted 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. (6) and Note 6. (23) for the information relating to the lessor.

(2) Standards or interpretations issued, revised or amended, by International Accounting Standards Board (“IASB”) and endorsed by FSC, but not yet adopted by the Company as at the end of the reporting period are listed below:

Standards or Interpretations Numbers	The Projects of Standards or Interpretations	Effective Dates
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

The abovementioned standards and interpretations issued by IASB and have been endorsed by FSC will become effective for annual periods beginning on or after January 1, 2020 and have no material impact on the Company.

(3) Standards or interpretations issued, revised or amended, by IASB but not yet endorsed by FSC and not yet adopted by the Company as at the end of the reporting period 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 9, IAS 39 and IFRS 7	“Interest Rate Benchmark Reform” (Amendment)	January 1, 2020

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- 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.

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.

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, 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 nine-month periods ended September 30, 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
			September 30, 2019	December 31, 2018	September 30, 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%	3
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	-	-	-	1,4

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			September 30, 2019	December 31, 2018	September 30, 2018	
MTK	MShining International Corporation	Sales	100%	-	-	1
MTK	Sigmastar Technology Inc.	General investing	-	-	-	1,5
MTK	Spidcom Technologies	Research	100%	-	-	1
MTK	ILI Technology Corporation	Research, manufacturing and sales	-	-	-	1,24
Hsu-Ta Investment Corp.	Core Tech Resources Inc.	General investing	100%	100%	100%	-
Hsu-Ta Investment Corp.	MediaTek Capital Co.	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 Co.	RollTech Technology Co., Ltd.	Research	67%	67%	67%	-
MediaTek Capital Co.	E-Vehicle Semiconductor Technology Co., Ltd.	Research, manufacturing and sales	-	-	47%	6
MediaTek Capital Co.	Chingis Technology Corporation	Research	100%	100%	100%	-
MediaTek Capital Co.	Velocenet Inc.	Research	100%	100%	100%	-
MediaTek Capital Co.	Nephos (Taiwan) Inc.	Research	100%	100%	100%	-
MediaTek Capital Co.	MediaTek Research Corp.	Research	100%	-	-	7
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	100%	93%	93%	3
Hsu-Si Investment Corp.	Airoha (Cayman) Inc.	General investing	100%	100%	100%	-

(To be continued)

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			September 30, 2019	December 31, 2018	September 30, 2018	
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%	82%	-
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%	-
Richtek Global Marketing Co., Ltd.	Richtek Korea LLC.	Sales and technical services	100%	100%	100%	-

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			September 30, 2019	December 31, 2018	September 30, 2018	
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%	75%	-
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%	8
Gaintech Co. Limited	Nephos Cayman Co. Limited	General investing	100%	100%	100%	-
Gaintech Co. Limited	Dynamic Presence Limited	General investing	-	-	100%	9
Gaintech Co. Limited	White Dwarf Limited	General investing	100%	100%	100%	-

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			September 30, 2019	December 31, 2018	September 30, 2018	
Gaintech Co. Limited	Zelus Technology (HangZhou) Ltd.	Research and sales	90%	100%	100%	-
Gaintech Co. Limited	IStar Technology Ltd.	General investing	100%	100%	-	10
Gaintech Co. Limited	MediaTek Research UK Limited	Research	100%	-	-	11
Gaintech Co. Limited	ILI Technology Holding Corporation	General investing	100%	-	-	11
Gaintech Co. Limited	Sigmastar Technology Inc.	General investing	100%	-	-	5
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%	-
MTK Wireless Limited (UK)	MStar Semiconductor UK Ltd.	Research and technical services	100%	-	-	4
MTK Wireless Limited (UK)	Nephos Inc.	Research	100%	-	-	8
Gold Rich International (Samoa) Limited	Gold Rich International (HK) Limited	General investing	100%	100%	100%	-
Digital Lord Limited (To be continued)	Lepower (HK) Limited	General investing	100%	100%	100%	-

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			September 30, 2019	December 31, 2018	September 30, 2018	
Lepower (HK) Limited	Nephos (Beijing) Co., Ltd.	Research	-	-	-	12
E-Vehicle Semiconductor Technology Co., Ltd.	E-Vehicle Holdings Corp.	General investing	-	-	100%	6
E-Vehicle Holdings Corp.	E-Vehicle Investment Limited	General investing	-	-	100%	6
E-Vehicle Investment Limited	E-Vehicle Semiconductor (Shanghai) Co., Ltd.	Research, manufacturing and sales	-	-	100%	6
EcoNet (Cayman) Inc.	Shadow Investment Limited	General investing	100%	100%	100%	-
EcoNet (Cayman) Inc.	EcoNet (HK) Limited	General investing and 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	-	-	-	13
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%	-	14
MStar Semiconductor, Inc.	MStar France SAS	Research	-	100%	100%	1
MStar Semiconductor, Inc.	Shunfonger Investment Holding Limited	General investing	-	-	-	15
MStar Semiconductor, Inc.	IStar Technology Ltd.	General investing	-	-	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
			September 30, 2019	December 31, 2018	September 30, 2018	
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
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%	16
MStar Semiconductor, Inc.	MShining International Corporation	Sales	-	100%	100%	1
MStar Semiconductor, Inc.	Sigmastar Technology Corp.	Research, manufacturing and sales	-	-	100%	17
MStar Semiconductor, Inc.	Sigmastar Technology Inc.	General investing	-	100%	100%	1
MStar Semiconductor, Inc.	Spidcom Technologies	Research	-	100%	100%	1,18
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%	-	17
Xiamen Sigmastar Technology Inc.	Shenzhen Sing Chen Technology Inc.	Research	100%	100%	100%	19
Xiamen Sigmastar Technology Inc.	SigmaStar Technology Inc. (Shanghai)	Research	100%	100%	100%	20
MStar Co., Ltd.	MStar Software R&D (Shenzhen), Ltd.	Technical services	100%	100%	100%	-
Digimoc Holdings Limited	Bubbly Bay Holdings Limited	General investing	-	-	100%	21

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			September 30, 2019	December 31, 2018	September 30, 2018	
MStar Software R&D (Shenzhen), Ltd.	MStar Chen Xi Software Shanghai Ltd.	Technical services	100%	100%	100%	-
MStar Technology Pte. Ltd.	MStar Semiconductor India Private Limited	Research and technical services	-	-	100%	14
MStar Semiconductor UK Ltd.	MSilicon Technology Corp.	Research and technical services	-	-	100%	22
IStar Technology Ltd.	Beijing Ilitek Technology Co., Ltd.	Research and technical services	100%	100%	100%	-
IStar Technology Ltd.	ShenZhen ZhongChen Semiconductor Ltd.	Technical services	100%	100%	100%	23
ILI Technology Holding Corporation	ILI Technology Corporation	Research, manufacturing and sales	100%	-	-	24
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	90%	83%	83%	-
Nephos (Hefei) Co., Ltd.	Nephos (Beijing) Co., Ltd.	Research	100%	100%	100%	12
Xuxin Investment (Shanghai) Inc.	Xuxi (Shanghai) Management Consulting Co., Ltd.	General investing	100%	-	-	25
Xuxi (Shanghai) Management Consulting Co., Ltd.	Hefei Xuhui Management Consulting Co., Ltd.	General investing	100%	-	-	26

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. For the purpose of reorganization, the 7% ownership of Airoha Technology Corp., which was previously owned by MediaTek Inc., was transferred to Hsu-Si Investment Corp. in August 2019.
4. For the purpose of reorganization, the 100% ownership of MStar Semiconductor UK Ltd., which was previously owned by MediaTek Inc., was transferred to MTK Wireless Limited (UK) in August 2019.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

5. For the purpose of reorganization, the 100% ownership of Sigmastar Technology Inc., which was previously owned by MediaTek Inc., was transferred to Gaintech Co. Limited in August 2019.
6. 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.
7. MediaTek Capital Corp. established MediaTek Research Corp. in January 2019.
8. For the purpose of reorganization, the 100% ownership of Nephos Inc., which was previously owned by Gaintech Co. Limited, was transferred to MTK Wireless Limited (UK) in September 2019.
9. For the purpose of reorganization, Dynamic Presence Limited has been liquidated in November 2018.
10. 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.
11. Gaintech Co. Limited established MediaTek Research UK Limited and ILI Technology Holding Corporation in January 2019.
12. 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.
13. For the purpose of reorganization, MediaTek (Nanjing) Inc. has been liquidated and returned its capital in February 2018.
14. 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.
15. For the purpose of reorganization, Shunfonger Investment Holding Limited has been liquidated and returned its capital in August 2018.
16. 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.
17. 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.
18. MStar Semiconductor, Inc. accomplished the tender offer and acquired 100% shares of Spidcom Technologies in July 2018.
19. Xiamen Sigmastar Technology Inc. established Shenzhen Sing Chen Technology Inc. in January 2018.
20. Xiamen Sigmastar Technology Inc. established SigmaStar Technology Inc. (Shanghai) in April 2018.
21. For the purpose of reorganization, Bubbly Bay Holdings Limited has been liquidated and returned its capital in July 2018.
22. For the purpose of reorganization, MSilicon Technology Corp. has been liquidated and returned its capital in September 2018.
23. IStar Technology Ltd. established ShenZhen ZhongChen Semiconductor Ltd. in June 2018.
24. For the purpose of reorganization, the 100% ownership of ILI Technology Corporation, which was previously owned by MediaTek Inc., was transferred to ILI Technology Holding Corporation in May 2019.

MEDIATEK INC. AND SUBSIDIARIES

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

25. Xuxin Investment (Shanghai) Inc. established Xuxi (Shanghai) Management Consulting Co., Ltd. in April 2019.
26. Xuxi (Shanghai) Management Consulting Co., Ltd. established Hefei Xuhui Management Consulting Co., Ltd. in April 2019.

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

Except for the accounting policies listed under Note 4. (5) to Note 4. (8), the same accounting policies have been followed in the consolidated financial statements for the nine-month periods ended September 30, 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.

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.

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.

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.

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.

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 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.

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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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;
- (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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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.

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 nine-month periods ended September 30, 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**

	September 30, 2019	December 31, 2018	September 30, 2018
Cash on hand and petty cash	\$ 4,563	\$ 4,653	\$ 5,793
Checking and savings accounts	22,464,816	20,053,199	15,888,992
Time deposits	133,263,120	122,966,588	132,056,682
Cash equivalents - repurchase agreements	20,177	145,805	-
Cash in transit	219,458	-	-
Total	<u>\$ 155,972,134</u>	<u>\$ 143,170,245</u>	<u>\$ 147,951,467</u>

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

Cash and cash equivalents were not pledged.

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(2) Financial assets and financial liabilities at fair value through profit or loss**

	September 30, 2019	December 31, 2018	September 30, 2018 (Adjusted)
<u>Current</u>			
<u>Financial assets mandatorily</u>			
<u>measured at fair value through</u>			
<u>profit or loss</u>			
Funds	\$ 6,358,901	\$ 3,162,748	\$ 3,739,065
Bonds	558,756	997,692	439,316
Linked deposits	307,728	790,425	1,221,183
Stocks	76,743	74,504	-
Forward exchange contracts	13,806	1,327	2,186
Total	<u>\$ 7,315,934</u>	<u>\$ 5,026,696</u>	<u>\$ 5,401,750</u>
<u>Held for trading financial liabilities</u>			
Forward exchange contracts	<u>\$ 10,571</u>	<u>\$ 4,932</u>	<u>\$ 14,930</u>
<u>Noncurrent</u>			
<u>Financial assets mandatorily</u>			
<u>measured at fair value through</u>			
<u>profit or loss</u>			
Linked deposits	5,045,275	3,070,747	2,413,288
Trust Funds	549,181	394,617	469,345
Bonds	429,254	384,852	306,720
Stocks	325,825	136,008	132,726
Total	<u>\$ 6,349,535</u>	<u>\$ 3,986,224</u>	<u>\$ 3,322,079</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

	September 30, 2019	December 31, 2018	September 30, 2018 (Adjusted)
<u>Current</u>			
<u>Debt instrument investments</u>			
<u>measured at fair value through</u>			
<u>other comprehensive income</u>			
Bonds	\$ 892,654	\$ 1,357,537	\$ 1,418,249
<u>Equity instrument investments</u>			
<u>measured at fair value through</u>			
<u>other comprehensive income</u>			
Listed company stocks	41,206,236	12,000,191	13,050,053
Unlisted company stocks	138,496	110,347	109,978
Subtotal	41,344,732	12,110,538	13,160,031
Total	\$ 42,237,386	\$ 13,468,075	\$ 14,578,280
<u>Noncurrent</u>			
<u>Debt instrument investments</u>			
<u>measured at fair value through</u>			
<u>other comprehensive income</u>			
Bonds	\$ 1,651,111	\$ 787,275	\$ 911,201
<u>Equity instrument investments</u>			
<u>measured at fair value through</u>			
<u>other comprehensive income</u>			
Capital	12,102,201	11,109,299	11,636,540
Listed company stocks	7,958,351	12,047,624	10,906,970
Unlisted company stocks	6,369,440	5,431,327	5,423,314
Funds	2,792,722	2,707,975	2,732,655
Subtotal	29,222,714	31,296,225	30,699,479
Total	\$ 30,873,825	\$ 32,083,500	\$ 31,610,680

Financial assets at fair value through other comprehensive income were not pledged.

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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

The Company has equity instrument investments measured at fair value through other comprehensive income. Details on dividends recognized for the three months and nine months ended September 30, 2019 and 2018 are as follows:

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Related to investments held at the end of the reporting period	\$ 181,782	\$ 455,002	\$ 255,552	\$ 564,514
Dividends recognized during the period	\$ 181,782	\$ 455,002	\$ 255,552	\$ 564,514

In consideration of the Company's investment strategy and the liquidation of certain investments, 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 and nine months ended September 30, 2019 and 2018 are as follows:

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
The fair value of the investments at the date of derecognition	\$ 3,652,293	\$ 166,880	\$ 7,385,369	\$ 394,679
The cumulative gain on disposal	\$ 2,808,191	\$ 76,125	\$ 5,730,189	\$ 197,625

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 but is not required to restate its 2018 interim financial statements.

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

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

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\$2,732,655 thousand to the financial assets measured at fair value through other comprehensive income-noncurrent as at September 30, 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\$138,942 thousand and NT\$323,383 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 for the three months and nine months ended September 30, 2018, respectively.

(4) Financial assets measured at amortized cost

	September 30, 2019	December 31, 2018	September 30, 2018
<u>Current</u>			
Bonds	\$ 260,565	\$ 2,995,945	\$ 2,533,878
Time deposits	-	9,705	43,707
Subtotal	260,565	3,005,650	2,577,585
<u>Noncurrent</u>			
Bonds	724,275	290,000	290,000
Time deposits	291,629	190,106	79,582
Subtotal	1,015,904	480,106	369,582
Total	\$ 1,276,469	\$ 3,485,756	\$ 2,947,167

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 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.

(5) Trade receivables and trade receivables from related parties

	September 30, 2019	December 31, 2018	September 30, 2018
Trade receivables	\$ 30,519,409	\$ 29,037,221	\$ 33,185,728
Less: allowance for doubtful debts	(87,208)	(107,395)	(191,424)
Subtotal	30,432,201	28,929,826	32,994,304
Trade receivables from related parties	5,000	6,605	-
Less: allowance for doubtful debts	-	-	-
Subtotal	5,000	6,605	-
Total	\$ 30,437,201	\$ 28,936,431	\$ 32,994,304

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 September 30, 2019, December 31, 2018, and September 30, 2018, are NT\$30,524,409 thousand, NT\$29,043,826 thousand and NT\$33,185,728 thousand, respectively. Please refer to Note 6. (22) for more details on impairment of trade receivables for the three months and nine months ended September 30, 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\$3,587,920 thousand, NT\$3,865,489 thousand and NT\$4,733,528 thousand as of September 30, 2019, December 31, 2018, and September 30, 2018, respectively.

(6) Other receivables

	September 30, 2019	December 31, 2018	September 30, 2018
Factoring receivables	\$ 4,046,405	\$ 2,978,963	\$ 3,618,552
Others	3,003,966	5,250,753	5,865,045
Total	\$ 7,050,371	\$ 8,229,716	\$ 9,483,597

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\$4,046,405 thousand, NT\$2,978,963 thousand and NT\$3,618,552 thousand as of September 30, 2019, December 31, 2018, and September 30, 2018, respectively.

As of September 30, 2019, December 31, 2018, and September 30, 2018, trade receivables derecognized were as follows:

A. As of September 30, 2019:

The Factor (Transferee)	Interest Rate (%)	Trade receivables derecognized (US\$'000)	Cash withdrawn (US\$'000)	Unutilized (US\$'000)	Credit line (US\$'000)
Taishin					
International Bank	-	\$ 71,542	\$ -	\$ 71,542	\$ 116,000
BNP Paribas	-	58,468	-	58,468	157,000
CHB	-	176	-	176	1,200
HSBC	-	166	-	166	-
SMBC	-	-	-	-	12,000
SKCB	-	-	-	-	2,500
Total		<u>\$ 130,352</u>	<u>\$ -</u>	<u>\$ 130,352</u>	<u>\$ 288,700</u>

B. As of December 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	-	\$ 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 September 30, 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	-	\$ 64,821	\$ -	\$ 64,821	\$ 85,500
BNP Paribas	-	53,569	-	53,569	107,000
HSBC	-	53	-	53	350
SMBC	-	-	-	-	10,000
Total		<u>\$ 118,443</u>	<u>\$ -</u>	<u>\$ 118,443</u>	<u>\$ 202,850</u>

(7) Inventories

	September 30, 2019	December 31, 2018	September 30, 2018
Raw materials	\$ 2,354,819	\$ 3,866,518	\$ 4,753,979
Work in progress	19,604,389	15,950,814	19,787,134
Finished goods	9,068,848	11,162,435	13,467,318
Net amount	<u>\$ 31,028,056</u>	<u>\$ 30,979,767</u>	<u>\$ 38,008,431</u>

The cost of inventories recognized in expenses amounted to NT\$38,934,446 thousand and NT\$41,205,611 thousand, including reversal of write-down of inventories of NT\$169,835 thousand for the three months ended September 30, 2019 because of circumstances that caused the net realizable value of inventory to be lower than its cost no longer existed and the write-down of inventories of NT\$1,071,277 thousand for the three months ended September 30, 2018.

The cost of inventories recognized in expenses amounted to NT\$105,960,251 thousand and NT\$109,143,497 thousand, including write-down of inventories of NT\$952,347 thousand and NT\$1,574,666 thousand for the nine months ended September 30, 2019 and 2018, respectively.

Inventories were not pledged.

(8) Prepayments

	September 30, 2019	December 31, 2018	September 30, 2018
Prepaid expenses	\$ 1,030,371	\$ 684,645	\$ 940,290
Input tax	356,895	197,544	384,569
Others	732,061	641,092	836,060
Total	<u>\$ 2,119,327</u>	<u>\$ 1,523,281</u>	<u>\$ 2,160,919</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	September 30, 2019		December 31, 2018		September 30, 2018	
	Carrying amount	Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)
Investments in associates:						
MOUNTAIN CAPITAL FUND, L.P.	\$ 2,182,931	65	\$ 1,585,705	42	\$ 1,576,374	42
FONTAINE CAPITAL FUND, L.P.	1,510,460	57	1,187,618	57	1,276,038	57
Others	1,185,918	-	1,107,816	-	1,032,147	-
Subtotal	4,879,309		3,881,139		3,884,559	
Investments in jointly controlled entities:						
Yuan Ke (Pingtan) Investment Fund Limited Partnership	13,327,368	81	8,830,819	81	10,706,665	81
Subtotal	13,327,368		8,830,819		10,706,665	
Total	\$ 18,206,677		\$ 12,711,958		\$ 14,591,224	

Although partial of the Company's ownership in the aforementioned investments were higher than 50%, those investments 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 they were not included in the consolidated entities.

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

The Company's 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:

A. Investments in associates

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Loss from continuing operations	\$ (26,076)	\$ (24,267)	\$ (113,735)	\$ (23,612)
Other comprehensive income (post-tax)	(6,780)	(6,372)	(6,358)	(2,999)
Total comprehensive income	<u>\$ (32,856)</u>	<u>\$ (30,639)</u>	<u>\$ (120,093)</u>	<u>\$ (26,611)</u>

B. Investments in jointly controlled entities

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
(Loss) profit from continuing operations	\$ (935)	\$ 12,098	\$ 121,299	\$ (19,033)
Other comprehensive income (post-tax)	-	-	-	-
Total comprehensive income	<u>\$ (935)</u>	<u>\$ 12,098</u>	<u>\$ 121,299</u>	<u>\$ (19,033)</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 September 30, 2019, December 31, 2018, and September 30, 2018.

(10) Property, plant and equipment

	September 30, 2019	December 31, 2018 (Note)	September 30, 2018 (Note)
Property, plant and equipment for own-use	<u>\$ 38,265,431</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	83,560	310,277	90,066	903,527	1,088,727	288,825	1,100,914	3,865,896
Disposals	(3,223)	(116,619)	(52,747)	(137,882)	(184,381)	(259,772)	(7,758)	(762,382)
Transfers	-	1,920,071	(78,109)	449,757	385,682	(312,815)	(2,332,330)	32,256
Exchange differences	-	(394,559)	(503)	(47,558)	(69,023)	(17,470)	(6,679)	(535,792)
As of September 30, 2019	<u>\$ 5,567,282</u>	<u>\$ 29,751,526</u>	<u>\$ 1,190,120</u>	<u>\$ 7,049,360</u>	<u>\$ 10,121,428</u>	<u>\$ 1,812,056</u>	<u>\$ 456,368</u>	<u>\$ 55,948,140</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	-	633,760	126,527	760,850	926,688	324,279	-	2,772,104
Disposals	-	(115,823)	(56,688)	(128,721)	(173,523)	(262,526)	-	(737,281)
Transfers	-	(14,611)	(64,318)	283,644	87,430	(237,939)	-	54,206
Exchange differences	-	(41,109)	(252)	(40,963)	(61,175)	(7,397)	-	(150,896)
As of September 30, 2019	<u>\$ -</u>	<u>\$ 4,783,206</u>	<u>\$ 595,901</u>	<u>\$ 5,087,023</u>	<u>\$ 6,197,815</u>	<u>\$ 1,018,764</u>	<u>\$ -</u>	<u>\$ 17,682,709</u>
Net carrying amount as of:								
September 30, 2019	<u>\$ 5,567,282</u>	<u>\$ 24,968,320</u>	<u>\$ 594,219</u>	<u>\$ 1,962,337</u>	<u>\$ 3,923,613</u>	<u>\$ 793,292</u>	<u>\$ 456,368</u>	<u>\$ 38,265,431</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	-	812,688	31,443	310,146	996,108	490,571	1,134,540	3,775,496
Disposals	-	(9,196)	(30,872)	(149,831)	(82,104)	(358,817)	-	(630,820)
Transfers	290,240	295,819	(98,721)	13,622	99,494	21,828	(712,099)	(89,817)
Exchange differences	-	(439,636)	259	(61,967)	(67,710)	15,764	(1,013)	(554,303)
As of September 30, 2018	<u>\$ 5,486,945</u>	<u>\$ 27,872,293</u>	<u>\$ 1,327,162</u>	<u>\$ 5,801,387</u>	<u>\$ 8,547,962</u>	<u>\$ 2,474,975</u>	<u>\$ 1,267,854</u>	<u>\$ 52,778,578</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	-	611,195	186,485	774,828	808,511	402,506	-	2,783,525
Disposals	-	(8,501)	(30,855)	(145,949)	(76,850)	(355,553)	-	(617,708)
Transfers	-	(6,274)	(26,765)	2,180	22,394	(360)	-	(8,825)
Exchange differences	-	(31,163)	443	(44,682)	(53,326)	(11,509)	-	(140,237)
As of September 30, 2018	<u>\$ -</u>	<u>\$ 4,108,806</u>	<u>\$ 665,050</u>	<u>\$ 3,994,142</u>	<u>\$ 5,196,998</u>	<u>\$ 1,391,141</u>	<u>\$ -</u>	<u>\$ 15,356,137</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>
September 30, 2018	<u>\$ 5,486,945</u>	<u>\$ 23,763,487</u>	<u>\$ 662,112</u>	<u>\$ 1,807,245</u>	<u>\$ 3,350,964</u>	<u>\$ 1,083,834</u>	<u>\$ 1,267,854</u>	<u>\$ 37,422,441</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	-	(16,822)	(216)	(17,038)
As of September 30, 2019	<u>\$ 201,536</u>	<u>\$ 801,455</u>	<u>\$ 66,980</u>	<u>\$ 1,069,971</u>
As of January 1, 2018	\$ 201,536	\$ 739,274		\$ 940,810
Transfers	-	84,271		84,271
Exchange differences	-	(18,509)		(18,509)
As of September 30, 2018	<u>\$ 201,536</u>	<u>\$ 805,036</u>		<u>\$ 1,006,572</u>
Depreciation and impairment:				
As of January 1, 2019	\$ -	\$ 92,645	\$ -	\$ 92,645
Depreciation	-	16,354	1,679	18,033
Transfers	-	1,014	19	1,033
Exchange differences	-	(2,518)	(34)	(2,552)
As of September 30, 2019	<u>\$ -</u>	<u>\$ 107,495</u>	<u>\$ 1,664</u>	<u>\$ 109,159</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
As of January 1, 2018	\$ -	\$ 67,159		\$ 67,159
Depreciation	-	15,278		15,278
Transfers	-	6,634		6,634
Exchange differences	-	(2,168)		(2,168)
As of September 30, 2018	<u>\$ -</u>	<u>\$ 86,903</u>		<u>\$ 86,903</u>

Net carrying amount as of:

September 30, 2019	<u>\$ 201,536</u>	<u>\$ 693,960</u>	<u>\$ 65,316</u>	<u>\$ 960,812</u>
December 31, 2018	<u>\$ 201,536</u>	<u>\$ 715,807</u>		<u>\$ 917,343</u>
September 30, 2018	<u>\$ 201,536</u>	<u>\$ 718,133</u>		<u>\$ 919,669</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.

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Rental income from				
investment properties	\$ 27,180	\$ 24,275	\$ 86,092	\$ 70,814
Less:				
Direct operating				
expenses from				
investment				
properties				
generating rental				
income	(5,960)	(5,273)	(18,033)	(15,278)
Total	<u>\$ 21,220</u>	<u>\$ 19,002</u>	<u>\$ 68,059</u>	<u>\$ 55,536</u>

Please refer to Note 8 for more details on investment properties 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)

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:	September 30, 2019	December 31, 2018	September 30, 2018
Fair value	<u>\$ 1,382,483</u>	<u>\$ 1,295,589</u>	<u>\$ 1,237,571</u>
Based on comparative approach and income approach:	September 30, 2019	December 31, 2018	September 30, 2018
Fair value	<u>\$ 263,076</u>	<u>\$ 263,076</u>	<u>\$ 262,578</u>
Income capitalization rate	<u>1.05%-3.24%</u>	<u>1.05%-3.24%</u>	<u>0.89%-2.64%</u>

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 nine months ended September 30, 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	-	133,022	-	1,048,752	-	1,181,774
Disposals	-	(38,394)	-	(30,416)	-	(68,810)
Transfers	-	(2,965,856)	-	3,030,420	-	64,564
Exchange differences	-	(2,882)	-	8,623	4,880	10,621
As of September 30, 2019	<u>\$ 772,487</u>	<u>\$ 666,429</u>	<u>\$ 5,114,146</u>	<u>\$ 14,769,997</u>	<u>\$ 65,466,960</u>	<u>\$ 86,790,019</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	-	586,736	-	98,663	-	685,399
Disposals	-	(11,484)	-	-	-	(11,484)
Transfers	-	3,019	-	336	-	3,355
Exchange differences	-	(1,245)	-	22,913	11,807	33,475
As of September 30, 2018	<u>\$ 772,487</u>	<u>\$ 3,554,159</u>	<u>\$ 5,114,146</u>	<u>\$ 9,764,827</u>	<u>\$ 65,458,732</u>	<u>\$ 84,664,351</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	84,449	160,663	480,042	2,337,490	-	3,062,644
Disposals	-	(38,394)	-	(7,480)	-	(45,874)
Transfers	-	(2,420,412)	-	2,485,115	-	64,703
Exchange differences	-	509	-	11,111	-	11,620
As of September 30, 2019	<u>\$ 589,243</u>	<u>\$ 353,663</u>	<u>\$ 3,201,439</u>	<u>\$ 10,762,020</u>	<u>\$ -</u>	<u>\$ 14,906,365</u>
As of January 1, 2018	\$ 392,194	\$ 2,044,968	\$ 2,118,267	\$ 3,369,097	\$ -	\$ 7,924,526
Amortization	84,450	484,564	443,117	1,648,402	-	2,660,533
Disposals	-	(11,484)	-	-	-	(11,484)
Exchange differences	-	135	-	(2,390)	-	(2,255)
As of September 30, 2018	<u>\$ 476,644</u>	<u>\$ 2,518,183</u>	<u>\$ 2,561,384</u>	<u>\$ 5,015,109</u>	<u>\$ -</u>	<u>\$ 10,571,320</u>
Net carrying amount as of:						
September 30, 2019	<u>\$ 183,244</u>	<u>\$ 312,766</u>	<u>\$ 1,912,707</u>	<u>\$ 4,007,977</u>	<u>\$ 65,466,960</u>	<u>\$ 71,883,654</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>
September 30, 2018	<u>\$ 295,843</u>	<u>\$ 1,035,976</u>	<u>\$ 2,552,762</u>	<u>\$ 4,749,718</u>	<u>\$ 65,458,732</u>	<u>\$ 74,093,031</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

	September 30, 2019	December 31, 2018	September 30, 2018
Unsecured bank loans	\$ 54,701,004	\$ 51,056,528	\$ 63,890,772
Interest rates	1.94%-2.67%	1.00%-3.39%	0.54%-2.87%

(15) Other payables

	September 30, 2019	December 31, 2018	September 30, 2018
Accrued salaries and bonuses	\$ 17,271,692	\$ 18,426,299	\$ 17,170,185
Accrued royalties	2,249,324	1,885,990	2,224,474
Others	7,634,282	10,169,490	9,857,487
Total	\$ 27,155,298	\$ 30,481,779	\$ 29,252,146

(16) Other current liabilities

	September 30, 2019	December 31, 2018	September 30, 2018
Refund liabilities	\$ 17,331,570	\$ 17,214,694	\$ 19,977,004
Others	321,841	297,649	274,004
Total	\$ 17,653,411	\$ 17,512,343	\$ 20,251,008

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 September 30, 2019 are as follows:

Lenders	September 30, 2019	Interest Rate (%)	Maturity date and terms of repayment
Unsecured long-term loan from Mega International Commercial Bank	\$ 1,667	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	12,143	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	221,100	1.40%	Effective from October 30, 2017, principal is repaid in 16 semi-annually payments with monthly interest payments.
Total	234,910		
Less: current portion	(36,850)		
Noncurrent portion	<u>\$ 198,060</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 September 30, 2018 are as follows:

Lenders	September 30, Interest		Maturity date and terms of repayment
	2018	Rate (%)	
Unsecured long-term loan from Mega International Commercial Bank	\$ 8,334	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	60,714	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	257,950	1.40%	Effective from October 30, 2017, principle is repaid in 16 semi-annually payments with monthly interest payments.
Total	326,998		
Less: current portion	(36,850)		
Noncurrent portion	<u>\$ 290,148</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 September 30, 2019 and 2018 were NT\$454,789 thousand and NT\$432,813 thousand, respectively. Pension expenses under the defined contribution plan for the nine months ended September 30, 2019 and 2018 were NT\$1,377,233 thousand and NT\$1,297,727 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 September 30, 2019 and 2018 were NT\$4,354 thousand and NT\$8,044 thousand, respectively. Pension expenses under the defined benefits plan for the nine months ended September 30, 2019 and 2018 were NT\$13,162 thousand and NT\$17,430 thousand, respectively.

(19) Equity

A. Share capital

MTK's authorized capital as of September 30, 2019, December 31, 2018, and September 30, 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\$15,896,912 thousand, NT\$15,915,070 thousand, and NT\$15,915,196 thousand, divided into 1,589,691,202 shares, 1,591,506,977 shares, and 1,591,519,581 shares as of September 30, 2019, December 31, 2018, and September 30, 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 September 30, 2019, 16,666,214 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 6,222,439 shares and 2,198,674 shares of issued restricted stocks for employees during the nine months ended September 30, 2019 and 2018, respectively. Relevant regulators' approvals have been obtained and related registration processes have been completed.

MTK issued 174,472 new shares for the nine months ended September 30, 2019, at par value of NT\$10 for exercising employee stock options. The aforementioned new issued shares (NT\$1,745 thousand in the amount) were not yet registered and therefore were classified as capital collected in advance as of September 30, 2019.

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

MTK issued 21,590 new shares for the nine months ended September 30, 2018, at par value of NT\$10 for exercising employee stock options. Relevant regulators' approvals have been obtained and related registration processes have been completed.

B. Capital surplus

	September 30, 2019	December 31, 2018	September 30, 2018
Additional paid-in capital	\$ 76,599,397	\$ 80,196,101	\$ 80,182,268
Treasury share transactions	1,677,838	1,607,691	1,607,691
Changes in ownership interests in subsidiaries	1,173,605	1,185,125	1,100,306
Donated assets	1,261	1,261	1,261
Employee stock options	425,617	444,505	433,959
Restricted stocks for employees	2,134,050	1,600,453	3,688,342
Others	263,721	202,078	202,078
Total	<u>\$ 82,275,489</u>	<u>\$ 85,237,214</u>	<u>\$ 87,215,905</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 September 30, 2019, December 31, 2018, and September 30, 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 September 30, 2019, December 31, 2018, and September 30, 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:

- a. reserve for tax payments;
- b. offset accumulated losses in previous years, if any;
- c. legal reserve, which is 10% of leftover profits. However, this restriction does not apply in the event that the amount of the accumulated legal reserve equals or exceeds the Company's total capital stock;

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)**

Details of the 2018 and 2017 earnings distribution and dividends per share as resolved by general shareholders' meeting on June 14, 2019 and June 15, 2018, respectively, are as follows:

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

In addition, the general shareholders' meeting on June 14, 2019 and June 15, 2018 resolved to distribute the additional 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

	Nine months ended September 30	
	2019	2018
Beginning balance	\$ 1,379,686	\$ 1,387,370
Gains attributable to non-controlling interests	114,848	69,508
Other comprehensive income (losses), attributable to non-controlling interests, net of tax:		
Exchange differences resulting from translating the financial statements of foreign operations	(14,822)	(13,368)
Share-based payment transactions	53,411	-
Changes in ownership interests in subsidiaries	-	58,021
Acquisition of additional interest in a subsidiary	21,640	(206,070)
Others	-	140,195
Ending balance	<u>\$ 1,554,763</u>	<u>\$ 1,435,656</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 September 30, 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	-	-	\$ 422.0
2010.08.27	1,605,757	594,587	594,587	397.8
2010.11.04	65,839	8,134	8,134	370.5
2011.08.24	2,109,871	902,817	902,817	272.6
2012.08.14	1,346,795	700,654	700,654	281.9
2013.08.22	1,436,343	957,086	957,086	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:

	Nine months ended September 30			
	2019		2018	
Employee Stock Option	Options (Unit)	Weighted-average Exercise Price per Share (NT\$)	Options (Unit)	Weighted-average Exercise Price per Share (NT\$)
Outstanding at beginning of period	3,891,765	\$ 337.5	4,681,103	\$ 340.4
Granted	-	-	-	-
Exercised (Note)	(174,472)	281.1	(21,590)	278.2
Forfeited (Expired)	(554,015)	409.0	(733,478)	347.3
Outstanding at end of period	<u>3,163,278</u>	327.3	<u>3,926,035</u>	337.6
Exercisable at end of period	<u>3,163,278</u>		<u>3,926,035</u>	
Weighted-average fair value of options granted during the period (in NT\$)	<u>\$ -</u>		<u>\$ -</u>	

Note: The weighted average share price at the date of exercise of those options were NT\$367.7 and NT\$329.1 for the nine months ended September 30, 2019 and 2018, respectively.

The information on the outstanding share-based payment plan as of September 30, 2019 and 2018 is as follows:

			September 30, 2019		September 30, 2018	
			Outstanding stock options		Outstanding stock options	
			Weighted- average Expected	Weighted- average Exercise Price	Weighted- average Expected	Weighted- average Exercise Price
Date of grant	Range of Exercise Price (NT\$)	Remaining Years	per Share (NT\$)	per Share (NT\$)	Remaining Years	per Share (NT\$)
2009.07.27	\$ 422.0	-	\$ -	-	\$ 423.2	-
2010.05.10	370.5-397.8	-	397.4	-	398.5	-
2011.08.09	272.6	-	272.6	-	273.4	-
2012.08.09	281.9	-	281.9	0.38	282.6	-
2013.08.09	368.0	0.42	368.0	1.42	368.0	-

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Restricted stocks plan for employees of MTK

On June 24, 2016 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, 2,205,888, 17,818 and 2,182,958 gratuitous restricted stocks on September 6, 2016, July 17, 2017, September 6, 2018, February 27, 2019, April 12, 2019, and July 15, 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, NT\$280, NT\$293.5 and NT\$314.5 per share, respectively. The estimated compensation expenses amounted to NT\$4,074,864 thousand in total based on the vesting conditions and will be recognized during the vesting period. As of September 30, 2019, MTK had recognized NT\$2,710,785 thousand as compensation expense and NT\$1,364,079 thousand as unearned employee compensation, which were recorded under salary expense and other equity, respectively.

Restrictions on the rights and vesting conditions of restricted stocks for employees of 2016 are 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)

Restrictions on the rights and vesting conditions of restricted stocks for employees of 2018 are 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 4,868,732 common shares for the exercise of employee stock options of Airotek (Shenzhen) Inc. and Airotek (Chengdu) Inc. and restricted stocks plan for employees of Airoha Technology Corporation.

Each unit of employee stock options is 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. with exercise price of US\$3.48 per share. Total outstanding stock options of Airoha (Cayman) Inc. were 340,000 units as of December 31, 2018. During the nine months period ended September 30, 2019, totally 42,900 units were granted and 39,000 units expired. Total outstanding stock options of Airoha (Cayman) Inc. were 343,900 units as of September 30, 2019.

On June 19, 2019, Board of Directors of ILI Technology Holding Corporation resolved to issue 47,463,000 common shares for the exercise of employee stock options of ILI Technology (SZ) Ltd. and restricted stocks plan for employees of ILI Technology Corporation.

Each unit of employee stock options is eligible to subscribe for one common share of ILI Technology Holding Corporation. The options may be granted to qualified employees of ILI Technology (SZ) Ltd. with subscription price of NT\$10 per share. Total outstanding stock options of ILI Technology Holding Corporation were 2,680,000 units as of September 30, 2019.

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 Subsidiaries

Airoha Technology Corporation issued non-gratuitous common stock options of Airoha (Cayman) Inc., each unit is eligible to subscribe for one common share of Airoha (Cayman) Inc. The options may be granted to qualified employees of Airoha Technology Corporation with subscription price of US\$3.48 per share. The information of the restricted stocks for employees is as follows:

Date of grant	The lock-up period	Total number of option units	Total number of options outstanding	The fair value per share
2018.05.25	2021.12.31	3,128,995	1,971,936	37.88
2018.06.15	2022.06.30	468,600	418,150	37.80
2019.01.01	2022.12.31	189,600	121,400	127.24
2019.07.01	2023.06.30	185,000	138,300	127.24

Restrictions on the rights and vesting conditions of restricted stocks for employees are 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, with no violation on any terms of Airoha Technology Corporation'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.

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:

	Restricted stocks plan for employee
Expected dividend yield (%)	0.00%
Expected volatility (%)	38.45%-45.46%
Risk free interest rate (%)	0.33%-0.47%
Expected life (Years)	0.04-0.81 years

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

On June 28, 2019, Board of Directors of ILI Technology Corporation resolved to issued 44,783,000 units non-gratuitous common stocks of ILI Technology Holding Corporation to qualified employees of ILI Technology Corporation with subscription price of NT\$10 per share. The lock-up period is from August 1, 2019 to July 31, 2023.

The fair values of the restricted stocks issued were NT\$10.87 per share. The estimated compensation expenses amounted to NT\$41,293 thousand in total based on the vesting conditions and will be recognized during the vesting period. As of September 30, 2019, ILI Technology Corporation had recognized NT\$2,581 thousand as compensation expense.

Restrictions on the rights and vesting conditions of restricted stocks for employees are as follows:

- A. To issue common shares of ILI Technology Holding Corporation with non-gratuitous issue price.
- B. Employee's continuous employment with ILI Technology Corporation through the lock-up period, with no violation on any terms of ILI Technology Corporation'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 ILI Technology Holding Corporation may be deposited in a security trust account.

ILI Technology Corporation did not modify or cancel any share-based payment plans for the nine months ended September 30, 2019.

Share-based compensation expenses recognized for employee services received for the three months and nine months ended September 30, 2019 and 2018, are shown in the following table:

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Employee stock options	\$ 762	\$ -	\$ 2,336	\$ -
Restricted stocks for employees	933,062	276,405	1,696,348	502,920
Total	<u>\$ 933,824</u>	<u>\$ 276,405</u>	<u>\$ 1,698,684</u>	<u>\$ 502,920</u>

The Company did not modify or cancel any share-based payment plans for the nine months ended September 30, 2019 and 2018.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(21) Sales

	<u>Three months ended September 30</u>		<u>Nine months ended September 30</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Revenue from contracts				
with customers				
Sale of goods	\$ 66,401,181	\$ 66,039,527	\$ 178,916,683	\$ 174,919,921
Services and other				
operating revenues	<u>823,173</u>	<u>990,619</u>	<u>2,596,669</u>	<u>2,245,544</u>
Total	<u>\$ 67,224,354</u>	<u>\$ 67,030,146</u>	<u>\$ 181,513,352</u>	<u>\$ 177,165,465</u>

Analysis of revenue from contracts with customers for the three months and nine months ended September 30, 2019 and 2018 is as follows:

A. Disaggregation of revenue

	<u>Three months ended September 30</u>		<u>Nine months ended September 30</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Sale of goods	\$ 66,401,181	\$ 66,039,527	\$ 178,916,683	\$ 174,919,921
Services and other				
operating				
revenues	<u>823,173</u>	<u>990,619</u>	<u>2,596,669</u>	<u>2,245,544</u>
Total	<u>\$ 67,224,354</u>	<u>\$ 67,030,146</u>	<u>\$ 181,513,352</u>	<u>\$ 177,165,465</u>

Revenue recognition

point:

At a point in time \$ 66,429,175 \$ 66,080,084 \$ 179,344,917 \$ 175,209,931

Satisfies the

 performance

 obligation over

 time

Total \$ 67,224,354 \$ 67,030,146 \$ 181,513,352 \$ 177,165,465

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

	September 30,2019	December 31, 2018	September 30,2018	January 1, 2018
Sales of goods	\$ 2,264,764	\$ 1,265,696	\$ 1,447,913	\$ 1,057,970
Services and other operating revenues	257,014	243,178	485,095	371,385
Total	<u>\$ 2,521,778</u>	<u>\$ 1,508,874</u>	<u>\$ 1,933,008</u>	<u>\$ 1,429,355</u>

The significant changes in the Company's balances of contract liabilities for the three months and nine months ended September 30, 2019 and 2018 are as follows:

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Revenue recognized during the period that was included in the beginning balance	<u>\$ 173,248</u>	<u>\$ 22,596</u>	<u>\$ 807,256</u>	<u>\$ 837,663</u>
Increase in receipt in advance during the period (deducting the amount incurred and transferred to revenue during the period)	<u>\$ (122,879)</u>	<u>\$ 305,424</u>	<u>\$ 1,461,551</u>	<u>\$ 1,304,497</u>

C. Transaction price allocated to unsatisfied performance obligations

As of September 30, 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\$2,074,537 and NT\$766,830 thousand. The Company recognizes revenues in accordance with the stage of completion of the contracts. Those contracts are expected to be completed within the next 1 to 2 years.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(22) Expected credit gains

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Operating expense –				
Expected credit gains				
Trade receivables	\$ 257	\$ 156,341	\$ 20,426	\$ 144,584

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 September 30, 2019, December 31, 2018 and September 30, 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:

2019.09.30

	Neither past due (Note)	Past due				Total
		Within 30 days	31-60 days	61-90 days	After 90 days	
Gross carrying amount	\$ 29,445,625	\$ 831,548	\$ 109,632	\$ 4,083	\$ 128,521	\$ 30,519,409
Loss ratio	0%	0%	0%	0%-10%	20%-100%	
Lifetime expected credit losses	-	-	-	(308)	(86,900)	(87,208)
Carrying amount of trade receivables	\$ 29,445,625	\$ 831,548	\$ 109,632	\$ 3,775	\$ 41,621	\$ 30,432,201

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

2018.09.30

	Neither past due	Past due				Total
	(Note)	Within 30 days	31-60 days	61-90 days	After 90 days	
Gross carrying amount	\$ 32,200,499	\$ 577,025	\$ 11,167	\$ 87,079	\$ 309,958	\$ 33,185,728
Loss ratio	0%	0%	0%	0%-10%	20%-100%	
Lifetime expected credit losses	-	-	-	(3,484)	(187,940)	(191,424)
Carrying amount of trade receivables	\$ 32,200,499	\$ 577,025	\$ 11,167	\$ 83,595	\$ 122,018	\$ 32,994,304

Note: Neither the Company's note receivables nor the trade receivables from related parties were past due.

The movements in the provision for impairment of receivables for the nine months ended September 30, 2019 and 2018 are as follows:

	Trade receivables (including related parties)	
	Note receivables	
As of January 1, 2019	\$ -	\$ 107,395
Reversal for the current period	-	(20,426)
Effect of changes in exchange rate	-	239
As of September 30, 2019	\$ -	\$ 87,208
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	-	(144,584)
Write off	-	(6,473)
Effect of changes in exchange rate	-	10,497
As of September 30, 2018	\$ -	\$ 191,424

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

	September 30, 2019	December 31, 2018 (Note)	September 30, 2018 (Note)
Land	\$ 1,772,864		
Buildings and facilities	1,134,844		
Machinery equipment	26,478		
Transportation equipment	27,541		
Office equipment	39,294		
Total	<u>\$ 3,001,021</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 nine months ended September 30, 2019, the additions to right-of-use assets of the Company amounted to NT\$659,381 thousand.

(b) Lease liability

	September 30, 2019	December 31, 2018 (Note)	September 30, 2018 (Note)
Lease liability-current	\$ 497,217		
Lease liability-noncurrent	2,463,339		
Total	<u>\$ 2,960,556</u>		

Please refer to Note 6. (27) for the interest on lease liability recognized during the three months and nine months ended September 30, 2019 and refer to Note 12. (2) C. for the maturity analysis for lease liabilities as at September 30, 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.

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

b. Amounts recognized in the statement of profit or loss

Depreciation charge for right-of-use assets

	Three months ended September 30		Nine months ended September 30	
	2019	2018(Note)	2019	2018(Note)
Land	\$ 12,102		\$ 36,375	
Buildings and facilities	102,545		301,267	
Machinery equipment	757		757	
Transportation equipment	3,305		8,544	
Office equipment	2,758		6,018	
Total	<u>\$ 121,467</u>		<u>\$ 352,961</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 September 30		Nine months ended September 30	
	2019	2018 (Note)	2019	2018 (Note)
The expense relating to short-term leases	<u>\$ 32,802</u>		<u>\$ 125,298</u>	
The expense relating to leases of low-value assets (Not including the expense relating to short-term leases of low-value assets)	<u>\$ 691</u>		<u>\$ 1,419</u>	
Income from subleasing right-of-use assets	<u>\$ 2,728</u>		<u>\$ 8,169</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 nine months ended September 30, 2019, the Company's total cash outflow for leases amounted to NT\$453,197 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 September 30, 2018 are as follows:

	September 30, 2019 (Note)	December 31, 2018	September 30, 2018
Not later than one year		\$ 554,748	\$ 503,654
Later than one year and not later than five years		1,068,478	716,449
Later than five years		285,697	300,203
Total		<u>\$ 1,908,923</u>	<u>\$ 1,520,306</u>

Operating lease expenses recognized are as follows:

	Three months ended September 30		Nine months ended September 30	
	2019(Note)	2018	2019(Note)	2018
Minimum lease payments		<u>\$ 183,162</u>		<u>\$ 524,278</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 and nine months ended September 30, 2019 and 2018:

	Three months ended September 30					
	2019			2018		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Pension	\$ 10,607	\$ 448,536	\$ 459,143	\$ 7,868	\$ 432,989	\$ 440,857
Others	\$ 296,816	\$ 13,075,819	\$ 13,372,635	\$ 216,857	\$ 10,916,694	\$ 11,133,551
Depreciation	\$ 43,429	\$ 1,005,547	\$ 1,048,976	\$ 51,786	\$ 872,177	\$ 923,963
Amortization	\$ 1,739	\$ 1,026,998	\$ 1,028,737	\$ 1,571	\$ 921,376	\$ 922,947

	Nine months ended September 30					
	2019			2018		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Pension	\$ 31,025	\$ 1,359,370	\$ 1,390,395	\$ 23,857	\$ 1,291,300	\$ 1,315,157
Others	\$ 832,768	\$ 35,126,851	\$ 35,959,619	\$ 618,475	\$ 32,247,170	\$ 32,865,645
Depreciation	\$ 131,395	\$ 3,011,703	\$ 3,143,098	\$ 158,805	\$ 2,639,998	\$ 2,798,803
Amortization	\$ 5,467	\$ 3,057,177	\$ 3,062,644	\$ 8,551	\$ 2,651,982	\$ 2,660,533

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 nine months ended September 30, 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\$93,269 thousand and NT\$9,443 thousand for the three months ended September 30, 2019, respectively. The amounts of employees' compensation and remunerations to directors were NT\$231,993 thousand and NT\$23,489 thousand for the nine months ended September 30, 2019, respectively. The amounts of employees' compensation and remunerations to directors were NT\$84,913 thousand and NT\$11,463 thousand for the three months ended September 30, 2018. The amounts of employees' compensation and remunerations to directors were NT\$212,890 thousand and NT\$28,740 thousand for the nine months ended September 30, 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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(25) Other income

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Interest income				
Financial assets				
measured at amortized				
cost	\$ 859,872	\$ 915,927	\$ 2,756,190	\$ 2,409,474
Financial assets at fair				
value through other				
comprehensive income	21,166	31,043	136,422	197,352
Subtotal	881,038	946,970	2,892,612	2,606,826
Financial assets at fair				
value through profit or				
loss	86,888	66,912	268,291	221,510
Subtotal	967,926	1,013,882	3,160,903	2,828,336
Rental income	38,326	40,316	120,138	110,659
Dividend income	181,782	455,002	255,552	564,514
Others	40,181	49,740	206,103	136,973
Total	\$ 1,228,215	\$ 1,558,940	\$ 3,742,696	\$ 3,640,482

(26) Other gains and losses

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
		(Adjusted)		(Adjusted)
Gains (losses) on disposal				
of property, plant and				
equipment	\$ 1,461	\$ (2,541)	\$ (13,699)	\$ (5,673)
Losses on disposal of				
intangible assets	(22,876)	-	(22,936)	-
Gains (losses) on disposal				
of investments				
Non-current assets held				
for sale	-	-	813,152	3,460,483
Debt instruments				
measured at fair value				
through other				
comprehensive income	-	(207)	(16,119)	(5,653)

(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)

	Three months ended September 30		Nine months ended September 30	
	2019	2018 (Adjusted)	2019	2018 (Adjusted)
Foreign exchange (losses) gains	(7,015)	39,300	174,798	431,772
Impairment losses				
Investments accounted for using the equity method	-	-	-	(22,760)
Gains on financial assets at fair value through profit or loss (Note1)	83,006	83,179	162,375	410,144
(Losses) gains on financial liabilities at fair value through profit or loss (Note 2)	14,492	(33)	(10,571)	(14,930)
Others	51,853	(14,355)	95,326	(124,122)
Total	<u>\$ 120,921</u>	<u>\$ 105,343</u>	<u>\$ 1,182,326</u>	<u>\$ 4,129,261</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 September 30		Nine months ended September 30	
	2019	2018	2019	2018
Interest expenses on borrowings	\$ 341,035	\$ 448,215	\$ 1,232,605	\$ 1,296,117
Interest expenses on lease liabilities	14,010	(Note)	40,158	(Note)
Total	<u>\$ 355,045</u>	<u>\$ 448,215</u>	<u>\$ 1,272,763</u>	<u>\$ 1,296,117</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 September 30, 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	\$ -	\$ -	\$ -	\$ -	\$ -
Unrealized gains (losses) from equity instrument investments measured at fair value through other comprehensive income	15,335,961	-	15,335,961	(1,539,252)	13,796,709
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	4,393,795	-	4,393,795	-	4,393,795
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	(1,659,244)	-	(1,659,244)	-	(1,659,244)
Unrealized gains (losses) from debt instrument investments measured at fair value through other comprehensive income	(7,045)	-	(7,045)	-	(7,045)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(164,660)	-	(164,660)	-	(164,660)
Total	\$ 17,898,807	\$ -	\$ 17,898,807	\$ (1,539,252)	\$ 16,359,555

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

For the three months ended September 30, 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	\$ -	\$ -	\$ -	\$ -	\$ -
Unrealized gains (losses) from equity instrument investments measured at fair value through other comprehensive income	6,351,624	-	6,351,624	(437,520)	5,914,104
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	73,877	-	73,877	-	73,877
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	(1,058,140)	-	(1,058,140)	-	(1,058,140)
Unrealized gains (losses) from debt instrument investments measured at fair value through other comprehensive income	(15,811)	207	(15,604)	-	(15,604)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(4,108)	-	(4,108)	-	(4,108)
Total	\$ 5,347,442	\$ 207	\$ 5,347,649	\$ (437,520)	\$ 4,910,129

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 nine months ended September 30, 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 (losses) from equity instrument investments measured at fair value through other comprehensive income	33,357,510	-	33,357,510	(3,255,835)	30,101,675
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	5,422,574	-	5,422,574	-	5,422,574
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	(700,826)	-	(700,826)	-	(700,826)
Unrealized gains (losses) from debt instrument investments measured at fair value through other comprehensive income	19,687	16,119	35,806	-	35,806
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(246,480)	-	(246,480)	-	(246,480)
Total	\$ 37,852,450	\$ 16,119	\$ 37,868,569	\$ (3,255,835)	\$ 34,612,734

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 nine months ended September 30, 2018 (Adjusted) :

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax (expense) gain	Other comprehensive income, net of tax
Not to be reclassified to profit or loss:					
Remeasurements of the defined benefit plan	\$ (52)	\$ -	\$ (52)	\$ (14,448)	\$ (14,500)
Unrealized gains (losses) from equity instrument investments measured at fair value through other comprehensive income	254,226	-	254,226	168,164	422,390
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	792,533	-	792,533	-	792,533
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	383,617	-	383,617	-	383,617
Unrealized gains (losses) from debt instrument investments measured at fair value through other comprehensive income	(13,443)	5,653	(7,790)	-	(7,790)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(13,491)	-	(13,491)	-	(13,491)
Total	\$ 1,403,390	\$ 5,653	\$ 1,409,043	\$ 153,716	\$ 1,562,759

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Upon derecognition of the Company's debt instrument investments measured at fair value through other comprehensive income, the cumulative gain or loss of NT\$0 for the three months ended September 30, 2019 and NT\$(16,119) thousand for the nine months ended September 30, 2019, which were recognized in other comprehensive income, were reclassified to profit or loss.

Upon derecognition of the Company's debt instrument investments measured at fair value through other comprehensive income, the cumulative gain or loss of NT\$(207) thousand for the three months ended September 30, 2018 and NT\$(5,653) thousand for the nine months ended September 30, 2018, which were recognized in other comprehensive income, were reclassified to profit or loss.

(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		Nine months ended	
	September 30		September 30	
	2019	2018	2019	2018
Current income tax expense:				
Current income tax charge	\$ 916,937	\$ 1,059,711	\$ 2,728,250	\$ 3,484,196
Deferred tax (income) expense:				
Deferred tax expense (income)				
relating to origination and				
reversal of temporary				
differences	51,255	(510,908)	876,581	(1,106,344)
Deferred tax expense (income)				
relating to origination and				
reversal of tax loss and tax				
credit	36,007	(142,624)	72,223	(328,035)
Deferred tax income relating to				
changes in tax rate or the				
imposition of new taxes	-	-	-	(461,989)

(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)

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Deferred tax expense arising from write-down or reversal of write-down of deferred tax asset	(15,865)	300,969	(72,669)	793,655
Tax income recognized in the periods for previously unrecognized tax credit or temporary difference of prior periods	-	-	(513,066)	-
Others	56,210	72,258	59,664	110,008
Total income tax expense	<u>\$ 1,044,544</u>	<u>\$ 779,406</u>	<u>\$ 3,150,983</u>	<u>\$ 2,491,491</u>

Income tax recognized in other comprehensive income

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Deferred tax expenses (income):				
Remeasurements of the defined benefit plan	\$ -	\$ -	\$ -	\$ 14,448
Unrealized gains (losses) from equity instrument investments measured at fair value through other comprehensive income	1,539,252	437,520	3,255,835	(168,164)
Unrealized gains (losses) from debt instrument investments measured at fair value through other comprehensive income	-	-	-	-
Income tax relating to components of other comprehensive income	<u>\$ 1,539,252</u>	<u>\$ 437,520</u>	<u>\$ 3,255,835</u>	<u>\$ (153,716)</u>

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Income tax charged directly to equity

	Three months ended		Nine months ended	
	September 30		September 30	
	2019	2018	2019	2018
Current income tax expense:				
Realized gains from equity instrument investments measured at fair value through other comprehensive income	\$ 338,837	\$ -	\$ 653,708	\$ -

The assessment of income tax returns

As of September 30, 2019, the assessments of the income tax returns of MTK and its material subsidiaries are as follows:

	The assessment of income tax returns	Notes
MTK	Assessed and approved up to 2017	(Note1, Note2)
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	

Note1: MTK has applied for administrative appeals for the tax returns of 2017, 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.

Note2: MStar Semiconductor, Inc. has paid in full the additional taxes of 2017 assessed by the tax authorities and will apply for administrative appeals.

(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.

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

	Three months ended September 30		Nine months ended September 30	
	2019	2018(Adjusted)	2019	2018(Adjusted)
A. Basic earnings per share				
Profit attributable to ordinary equity owners of the parent (in thousand NT\$)	\$ 6,870,577	\$ 6,738,507	\$ 16,706,399	\$ 16,637,258
Weighted average number of ordinary shares outstanding for basic earnings per share (share)	1,567,598,598	1,565,303,050	1,566,764,810	1,565,040,640
Basic earnings per share (NT\$)	\$ 4.38	\$ 4.30	\$ 10.66	\$ 10.63
	Three months ended September 30		Nine months ended September 30	
	2019	2018(Adjusted)	2019	2018(Adjusted)
B. Diluted earnings per share				
Profit attributable to ordinary equity owners of the parent (in thousand NT\$)	\$ 6,870,577	\$ 6,738,507	\$ 16,706,399	\$ 16,637,258
Weighted average number of ordinary shares outstanding for basic earnings per share (share)	1,567,598,598	1,565,303,050	1,566,764,810	1,565,040,640
Effect of dilution:				
Employees' compensation-stock (share)	628,707	863,652	904,345	1,127,092
Employee stock options (share)	439,973	-	294,311	132,965
Restricted stocks for employees (share)	9,999,430	5,318,704	11,480,403	6,230,423
Weighted average number of ordinary shares outstanding after dilution (share)	1,578,666,708	1,571,485,406	1,579,443,869	1,572,531,120
Diluted earnings per share (NT\$)	\$ 4.35	\$ 4.29	\$ 10.58	\$ 10.58

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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(31) Changes in ownership interests in subsidiaries

Changes in ownership of subsidiaries

In consideration of the Company's investment strategy, the Company disposed of shares of Zelus Technology (HangZhou) Ltd. in August 2019 and its ownership was reduced to 90%. As the control over the subsidiary remained, the change of the ownership interest was accounted for as an equity transaction.

The Company purchased additional 6.82% of voting shares of Nephos (Hefei) Co., Ltd. in May 2019 and its ownership rose to 90%. As the control over the subsidiary remained, the change of the ownership interest was accounted for as an equity transaction. The ownership of Nephos (Beijing) Co., Ltd. also rose to 90%.

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 differences between the fair value of purchased equity investments and the decrease in the non-controlling interest were NT\$551,786 thousand, NT\$1,341,544 thousand and NT\$1,426,362 thousand for the nine months ended September 30, 2019, the year ended December 31, 2018 and the nine months ended September 30, 2018, respectively, and were recorded in equity.

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

MEDIATEK INC. AND SUBSIDIARIES

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

Note: The Company lost control over E-Vehicle Semiconductor Technology Co., Ltd. (E-Vehicle) on December 27, 2018, and the Company adopted the equity method for the investment. As a result, E-Vehicle became an associate of the Company after that date.

Significant transactions with the related parties

(1) Sales

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Associates				
Intelligo Technology Inc.	\$ -	\$ 2,542	\$ 5,985	\$ 6,530
E-Vehicle Semiconductor Technology Co., Ltd.	-	-	1,190	-
Total	<u>\$ -</u>	<u>\$ 2,542</u>	<u>\$ 7,175</u>	<u>\$ 6,530</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

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Other related parties				
King Yuan Electronics Co., Ltd. and its subsidiaries	<u>\$ 942,209</u>	<u>\$ 959,746</u>	<u>\$ 2,390,692</u>	<u>\$ 2,423,432</u>

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

(3) Consign research and development expenses and license expenses

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Other related parties				
Andes Technology Corp.	<u>\$ 5,514</u>	<u>\$ 1,716</u>	<u>\$ 18,983</u>	<u>\$ 25,894</u>

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(4) Rental income**

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Other related parties				
Andes Technology Corp.	\$ -	\$ 177	\$ -	\$ 530

(5) Trade receivables from related parties

	September 30, 2019	December 31, 2018	September 30, 2018
Associates			
Intelligo Technology Inc.	\$ -	\$ 2,855	\$ -
E-Vehicle Semiconductor Technology Co., Ltd.	5,000	3,750	-
Total	\$ 5,000	\$ 6,605	\$ -

(6) Trade payables to related parties

	September 30, 2019	December 31, 2018	September 30, 2018
Other related parties			
King Yuan Electronics Co., Ltd. and its subsidiaries	\$ 943,588	\$ 704,262	\$ 967,252

(7) Other payables to related parties

	September 30, 2019	December 31, 2018	September 30, 2018
Other related parties			
Andes Technology Corp.	\$ 2,948	\$ 459	\$ 307

(8) Prepayments

	September 30, 2019	December 31, 2018	September 30, 2018
Other related parties			
Andes Technology Corp.	\$ 6,990	\$ -	\$ -

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(9) Key management personnel compensation**

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Short-term employee benefits (Note)	\$ 246,342	\$ 208,344	\$ 643,874	\$ 688,441
Share-based payment	64,242	43,873	218,685	126,614
Post-employment benefits	717	886	2,453	2,645
Total	<u>\$ 311,301</u>	<u>\$ 253,103</u>	<u>\$ 865,012</u>	<u>\$ 817,700</u>

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.

8. Assets Pledged as Collateral

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

Assets pledged as collateral	Carrying amount			Purpose of pledge
	September 30, 2019	December 31, 2018	September 30, 2018	
Financial assets measured at amortized cost-current	\$ -	\$ 9,705	\$ 9,705	Lease execution deposits
Financial assets measured at amortized cost-current	-	-	18,727	Performance bond
Financial assets measured at amortized cost-current	-	-	15,275	Loan guarantee
Financial assets measured at amortized cost-noncurrent	9,917	9,898	9,827	Lease execution deposits
Financial assets measured at amortized cost-noncurrent	110	110	105	Lease execution deposits
Financial assets measured at amortized cost-noncurrent	24,365	24,304	24,294	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	9,180	Customs clearance deposits
Financial assets measured at amortized cost-noncurrent	1,516	1,507	1,507	Customs clearance deposits

(To be continued)

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

(Continued)

Assets pledged as collateral	Carrying amount			Purpose of pledge
	September 30, 2019	December 31, 2018	September 30, 2018	
Financial assets measured at amortized cost-noncurrent	1,000	1,000	1,000	Customs clearance deposits
Financial assets measured at amortized cost-noncurrent	675	498	476	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	7,125	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
Property, plant and equipment - buildings and facilities	228,457	243,571	245,967	Long-term borrowing
Property, plant and equipment - buildings and facilities	322,631	326,434	327,702	Long-term borrowing
Investment property-buildings and facilities	156,806	152,577	154,042	Long-term borrowing
Total	<u>\$ 999,523</u>	<u>\$ 922,393</u>	<u>\$ 851,000</u>	

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

9. Contingencies and Off Balance Sheet Commitments

(1) 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. Based on agreement between AMD and MTK, the Commission entered a modified limited exclusion order on October 15, 2019 which lifts all limitations on MTK products from the previous limited exclusion order. Appeal of the original final determination was also dismissed by the Federal Circuit Court of Appeals pursuant to parties’ joint motion.

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 court dismissed the case on September 23, 2019 based on joint stipulation of the parties.

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.

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. On July 10, 2019, the court dismissed the claims against MTK and MediaTek USA Inc. with prejudice pursuant to the parties’ joint stipulation.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- 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. On September 27, 2019, the Administrative Law Judge entered an initial determination to terminate the investigation based on parties’ agreement.

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. Given the termination of the corresponding Commission’s investigation, the parties have jointly moved for dismissal of this case.

- E. GlobalFoundries U.S. Inc. (“GF”) filed a complaint with the Commission against MTK, subsidiary MediaTek USA Inc., and subsidiary MStar Semiconductor, Inc. on August 26, 2019, alleging infringement of United States Patent Nos. 7,750,418, 8,912,603 and 8,936,986.

GF also filed a complaint in the United States District Court for the Western District of Texas against MTK, subsidiary MediaTek USA Inc., and subsidiary MStar Semiconductor, Inc. on August 26, 2019, alleging infringement of the above referenced patents.

GF also filed a separate complaint in the United States District Court for the Western District of Texas against MTK, subsidiary MediaTek USA Inc., and subsidiary MStar Semiconductor, Inc. on August 26, 2019, alleging infringement of United States Patent Nos. 6,518,167, 7,425,497, 8,039,966, 8,581,348, 8,598,633 and 9,355,910.

The operations of MTK and subsidiary MediaTek USA Inc, 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

MEDIATEK INC. AND SUBSIDIARIES

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

12. Others

(1) Financial instruments

A. Categories of financial instruments

Financial assets

	September 30, 2019	December 31, 2018	September 30, 2018 (Adjusted)
Financial assets at fair value through profit or loss:			
Held for trading financial assets	\$ 13,806	\$ 1,327	\$ 2,186
Mandatorily measured at fair value through profit or loss (Note 1)	17,239,583	12,877,082	13,455,171
Subtotal	17,253,389	12,878,409	13,457,357
Financial assets at fair value through other comprehensive income	73,111,211	45,551,575	46,188,960
Financial assets measured at amortized cost (Note 2)	191,156,915	179,954,956	188,641,404
Total	<u>\$ 281,521,515</u>	<u>\$ 238,384,940</u>	<u>\$ 248,287,721</u>

Financial liabilities

Financial liabilities at fair value through profit or loss:			
Held for trading financial liabilities	\$ 10,571	\$ 4,932	\$ 14,930
Financial liabilities at amortized cost:			
Short-term borrowings	54,701,004	51,056,528	63,890,772
Trade payables (including related parties)	23,101,445	17,687,171	25,277,146
Other payables (including related parties)	27,158,246	30,482,238	29,252,453
Long-term payables (including current portion)	1,466,233	2,080,131	2,071,347
Long-term borrowings (including current portion)	234,910	280,954	326,998
Lease liabilities	2,960,556	(Note 3)	(Note 3)
Subtotal	109,622,394	101,587,022	120,818,716
Total	<u>\$ 109,632,965</u>	<u>\$ 101,591,954</u>	<u>\$ 120,833,646</u>

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Notes:

1. Includes trade receivables classified as financial assets measured at fair value through profit or loss for September 30, 2019, December 31, 2018 and September 30, 2018 which were in the amount of NT\$3,587,920 thousand, NT\$3,865,489 thousand and NT\$4,733,528 thousand, respectively. Please refer to Note 6. (5) for further explanation.
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 for September 30, 2019, December 31, 2018 and September 30, 2018 which were in the amount of NT\$3,587,920 thousand, NT\$3,865,489 thousand and NT\$4,733,528 thousand, respectively. 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).

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 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.
- (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.

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(b) Fair value measurement hierarchy of the Company's assets and liabilities**

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

As of September 30, 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	\$ -	\$ -	\$ 988,010	\$ 988,010
Forward exchange contracts	-	13,806	-	13,806
Linked deposits	825,813	-	4,527,190	5,353,003
Stocks	265,743	-	136,825	402,568
Funds	776,578	-	5,582,323	6,358,901
Trust funds	549,181	-	-	549,181
Financial assets at fair value				
through other comprehensive				
income				
Equity instruments measured at				
fair value through other				
comprehensive income	51,957,309	-	18,610,137	70,567,446
Debt instruments measured at				
fair value through other				
comprehensive income	1,803,465	-	740,300	2,543,765
Total	<u>\$ 56,178,089</u>	<u>\$ 13,806</u>	<u>\$ 30,584,785</u>	<u>\$ 86,776,680</u>

Liabilities measured at fair value:

Financial liabilities at fair value

through profit or loss

Forward exchange contracts	\$ -	\$ 10,571	\$ -	\$ 10,571
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MEDIATEK INC. AND SUBSIDIARIES

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

As of 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				
comprehensive income	1,532,618	-	612,194	2,144,812
Total	<u>\$ 26,971,498</u>	<u>\$ 2,798,807</u>	<u>\$ 24,794,190</u>	<u>\$ 54,564,495</u>
<u>Liabilities measured at fair value:</u>				
Financial liabilities at fair value				
through profit or loss				
Forward exchange contracts	<u>\$ -</u>	<u>\$ 4,932</u>	<u>\$ -</u>	<u>\$ 4,932</u>

MEDIATEK INC. AND SUBSIDIARIES

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

As of September 30, 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	\$ -	\$ -	\$ 746,036	\$ 746,036
Forward exchange contracts	-	2,186	-	2,186
Linked deposits	-	259,995	3,374,476	3,634,471
Stocks	-	-	132,726	132,726
Funds	751,356	-	2,987,709	3,739,065
Trust funds	469,345	-	-	469,345
Financial assets at fair value				
through other comprehensive				
income				
Equity instruments measured at				
fair value through other				
comprehensive income	15,782,708	10,906,970	17,169,832	43,859,510
Debt instruments measured at				
fair value through other				
comprehensive income	1,275,825	-	1,053,625	2,329,450
Total	<u>\$ 18,279,234</u>	<u>\$ 11,169,151</u>	<u>\$ 25,464,404</u>	<u>\$ 54,912,789</u>

Liabilities measured at fair value:

Financial liabilities at fair value				
through profit or loss				
Forward exchange contracts	<u>\$ -</u>	<u>\$ 14,930</u>	<u>\$ -</u>	<u>\$ 14,930</u>

For the nine months ended September 30, 2019 and 2018, amounts transferred from level 2 of the fair value hierarchy to level 1 due to the release of the stock transfer restrictions were NT\$7,958,351 thousand and 11,575,485 thousand, respectively.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

The 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	4,934	29,662	66,316	33,914	6,510	21,030	-	162,366
Amount recognized in								
OCI	-	-	-	-	7,187	88,303	504,209	599,699
Amount recognized in								
OCI- exchange								
differences	(4,117)	(3,675)	(72,191)	81,449	(9,166)	39,424	52,672	84,396
Acquisitions	-	581,746	7,300,585	1,594,071	434,276	874,544	576,063	11,361,285
Settlements	-	(1,002,267)	(4,124,838)	(782,264)	(310,701)	(30,399)	(166,682)	(6,417,151)
As of September 30, 2019	\$ 136,825	\$ 988,010	\$ 5,582,323	\$ 4,527,190	\$ 740,300	\$ 12,102,201	\$ 6,507,936	\$ 30,584,785

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	378,857	23,583	25,621	(74,567)	52,014	-	-	405,508
Amount recognized in								
OCI	-	-	-	-	7,771	1,334,320	633,148	1,975,239
Amount recognized in								
OCI- exchange								
differences	(8,534)	26,107	(37,530)	60,390	(60,599)	152,569	109,062	241,465
Acquisitions	-	-	4,095,221	1,231,816	311,178	1,193,053	18,551	6,849,819
Settlements	(736,913)	(1,605,508)	(2,040,552)	(1,796,848)	(1,628,282)	(220,592)	(202,884)	(8,231,579)
As of September 30, 2018	\$ 132,726	\$ 746,036	\$ 2,987,709	\$ 3,374,476	\$ 1,053,625	\$ 11,636,540	\$ 5,533,292	\$ 25,464,404

Total gains (losses) related to assets recognized for the nine months ended September 30, 2019 and 2018 amounted to NT\$52,675 thousand and NT\$(20,829) 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)**Valuation process used for fair value measurements categorized within Level 3 of the fair value hierarchy

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

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

As of September 30, 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>\$ 1,645,559</u>	<u>\$ 1,645,559</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 September 30, 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>\$ 1,530,392</u>	<u>\$ 1,530,392</u>

D. Derivative financial instruments

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

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

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

Forward exchange contracts	Currency	Contract amount (‘000)	Maturity
As of September 30, 2019	TWD to USD	Buy USD 60,000	October 2019
As of September 30, 2019	CNY to USD	Buy USD 118,602	October 2019
As of September 30, 2019	CNY to USD	Buy USD 5,465	November 2019
As of September 30, 2019	TWD to USD	Sell USD 35,000	October 2019
As of September 30, 2019	CNY to USD	Sell USD 4,000	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 September 30, 2018	TWD to USD	Sell USD 12,000	October 2018
As of September 30, 2018	CNY to USD	Sell USD 6,000	October 2018
As of September 30, 2018	CNY to USD	Sell USD 3,000	November 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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

a. Foreign currency risk

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

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

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

When NTD appreciates or depreciates against USD by 0.1%, the profit for the nine months ended September 30, 2019 and 2018 decreases/increases by NT\$1,004 thousand and increases/decreases by NT\$1,555 thousand, while equity decreases/increases by NT\$125,992 thousand and NT\$87,167 thousand, respectively.

When NTD appreciates or depreciates against CNY by 0.1%, the profit for the nine months ended September 30, 2019 and 2018 decreases/increases by NT\$0 thousand and NT\$6 thousand, while equity decreases/increases by NT\$11,843 thousand and NT\$9,634 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 nine months ended September 30, 2019 and 2018 to increase/decrease by NT\$4,223 thousand and NT\$1,990 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 nine months ended September 30, 2019 and 2018 to increase/decrease by NT\$2,657 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 nine months ended September 30, 2019 and 2018 to increase/decrease by NT\$519,573 thousand and NT\$239,570 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 September 30, 2019, December 31, 2018, and September 30, 2018, receivables from top ten customers represented 36.54%, 44.28%, and 36.96% 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		
			September 30, 2019	December 31, 2018	September 30, 2018
Low credit risk	Credit risk measure belongs to IG category	12-month expected credit losses	\$ 2,332,428	\$ 4,942,322	\$ 4,931,060
	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	\$ 1,196,177	\$ 488,435	\$ 222,270
	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	\$ 30,524,409	\$ 29,043,826	\$ 33,185,728

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, 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

		Less than 1 year	1 to 5 years	Later than 5 years	Total
<u>As of September 30, 2019</u>					
Short-term borrowings	\$	54,803,823	\$ -	\$ -	\$ 54,803,823
Trade payables (including related parties)		23,101,445	-	-	23,101,445
Other payables (including related parties)		27,158,246	-	-	27,158,246
Lease liabilities		497,217	952,069	1,511,270	2,960,556
Long-term borrowings		39,849	167,695	37,022	244,566
Long-term payables		849,715	616,518	-	1,466,233
Total	\$	106,450,295	\$ 1,736,282	\$ 1,548,292	\$ 109,734,869

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 September 30, 2018</u>				
Short-term borrowings	\$ 64,040,491	\$ -	\$ -	\$ 64,040,491
Trade payables (including related parties)	25,277,146	-	-	25,277,146
Other payables	29,170,410	-	-	29,170,410
Long-term borrowings	41,353	228,197	74,560	344,110
Long-term payables	1,394,206	677,141	-	2,071,347
Total	<u>\$ 119,923,606</u>	<u>\$ 905,338</u>	<u>\$ 74,560</u>	<u>\$ 120,903,504</u>

MEDIATEK INC. AND SUBSIDIARIES

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

Derivative financial instruments

	<u>Less than 1 year</u>	<u>1 to 5 years</u>	<u>Total</u>
<u>As of September 30, 2019</u>			
Gross settlement			
Forward exchange contracts			
Inflow	\$ 2,255,709	\$ -	\$ 2,255,709
Outflow	(2,266,618)	-	(2,266,618)
Net	<u>\$ (10,909)</u>	<u>\$ -</u>	<u>\$ (10,909)</u>
<u>As of December 31, 2018</u>			
Gross settlement			
Forward exchange contracts			
Inflow	\$ 123,547	\$ -	\$ 123,547
Outflow	(123,958)	-	(123,958)
Net	<u>\$ (411)</u>	<u>\$ -</u>	<u>\$ (411)</u>
Net settlement			
Forward exchange contracts	(7,262)	-	(7,262)
Total	<u>\$ (7,673)</u>	<u>\$ -</u>	<u>\$ (7,673)</u>
<u>As of September 30, 2018</u>			
Gross settlement			
Forward exchange contracts			
Inflow	\$ 263,359	\$ -	\$ 263,359
Outflow	(274,959)	-	(274,959)
Net	<u>\$ (11,600)</u>	<u>\$ -</u>	<u>\$ (11,600)</u>

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

D. Reconciliation of liabilities arising from financing activities

Reconciliation of liabilities for nine months ended September 30, 2019:

	Short-term	Long-term	Lease	Deposits	Total liabilities
	borrowings	borrowings	Liabilities	received	from financing
					activities
As of January 1, 2019	\$ 51,056,528	\$ 280,954	\$ 2,593,779	\$ 188,534	\$ 54,119,795
Cash flows	3,401,559	(46,044)	(286,322)	387,413	3,456,606
Non-cash movement	-	-	653,099	-	653,099
Foreign exchange					
movement	242,917	-	-	-	242,917
As of September 30, 2019	<u>\$ 54,701,004</u>	<u>\$ 234,910</u>	<u>\$ 2,960,556</u>	<u>\$ 575,947</u>	<u>\$ 58,472,417</u>

Reconciliation of liabilities for nine months ended September 30, 2018:

	Short-term	Long-term	Deposits	Total liabilities
	borrowings	borrowings	received	from financing
				activities
As of January 1, 2018	\$ 64,315,682	\$ 373,042	\$ 179,472	\$ 64,868,196
Cash flows	(612,598)	(46,044)	28,145	(630,497)
Foreign exchange				
movement	187,688	-	-	187,688
As of September 30, 2018	<u>\$ 63,890,772</u>	<u>\$ 326,998</u>	<u>\$ 207,617</u>	<u>\$ 64,425,387</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:

September 30, 2019			
	Foreign Currency (thousand)	Exchange rate	NT\$ (thousand)
Financial assets			
Monetary item:			
USD	\$ 4,397,431	31.042	\$ 141,594,006
CNY	\$ 34,518	4.526	\$ 155,913
Non-monetary item:			
USD	\$ 2,265,969	31.042	\$ 70,340,218
CNY	\$ 2,585,471	4.526	\$ 11,228,056
Financial liabilities			
Monetary item:			
USD	\$ 2,717,355	31.042	\$ 84,352,135
CNY	\$ 3,546	4.526	\$ 15,708
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)**

	September 30, 2018		
	Foreign Currency (thousand)	Exchange rate	NT\$ (thousand)
Financial assets			
Monetary item:			
USD	\$ 4,652,601	30.551	\$ 142,141,601
CNY	\$ 46,603	4.445	\$ 207,168
Non-monetary item:			
USD	\$ 1,381,193	30.551	\$ 42,196,816
CNY	\$ 2,125,243	4.445	\$ 9,447,555
Financial liabilities			
Monetary item:			
USD	\$ 3,219,530	30.551	\$ 98,426,534
CNY	\$ 3,370	4.445	\$ 14,979

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 (losses) gains were NT\$(7,015) thousand and NT\$39,300 thousand for the three months ended September 30, 2019 and 2018, respectively. The foreign exchange gains were NT\$174,798 thousand and NT\$431,772 thousand for the nine months ended September 30, 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.