

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, 2020 AND 2019

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, 2020 and 2019, the related consolidated statements of comprehensive income for the three-month and nine-month periods ended September 30, 2020 and 2019, changes in equity and cash flows for the nine-month periods ended September 30, 2020 and 2019, 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, 2020 and 2019, their consolidated financial performance for the three-month and nine-month periods ended September 30, 2020 and 2019, and cash flows for the nine-month periods ended September 30, 2020 and 2019, 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, 2020

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, 2020, December 31, 2019, and September 30, 2019

(September 30, 2020 and 2019 are unaudited)

(Amounts in thousands of New Taiwan Dollars)

ASSETS	Notes	September 30, 2020	%	December 31, 2019	%	September 30, 2019	%
Current assets							
Cash and cash equivalents	6(1)	\$ 170,040,541	35	\$ 177,544,914	39	\$ 155,972,134	34
Financial assets at fair value through profit or loss-current	6(2)	8,344,758	2	6,342,734	1	7,315,934	2
Financial assets at fair value through other comprehensive income-current	6(3)	5,924,623	1	19,026,604	4	42,237,386	9
Financial assets measured at amortized cost-current	6(4)	-	-	259,415	-	260,565	-
Notes receivables, net	6(22)	4,016	-	2,811	-	13,223	-
Trade receivables, net	6(5), 6(22)	37,991,810	8	26,829,271	6	30,432,201	7
Trade receivables from related parties, net	6(5), 6(22), 7	811	-	5,000	-	5,000	-
Other receivables	6(6)	5,708,692	1	6,313,078	1	7,050,371	2
Current tax assets	4, 5, 6(30)	865,219	-	552,689	-	704,196	-
Inventories, net	6(7)	31,010,119	6	27,615,237	6	31,028,056	7
Prepayments	6(8), 7	1,617,779	-	1,550,085	1	2,119,327	-
Non-current assets held for sale	4,6(32), 7	7,555,610	2	-	-	-	-
Other current assets		882,907	-	687,263	-	1,093,096	-
Total current assets		269,946,885	55	266,729,101	58	278,231,489	61
Non-current assets							
Financial assets at fair value through profit or loss-noncurrent	6(2)	4,778,152	1	6,868,203	2	6,349,535	1
Financial assets at fair value through other comprehensive income-noncurrent	6(3)	46,450,361	9	50,223,077	11	30,873,825	7
Financial assets measured at amortized cost-noncurrent	6(4), 8	9,432,362	2	2,570,042	1	1,015,904	-
Investments accounted for using the equity method	6(9)	35,278,392	7	13,616,525	3	18,206,677	4
Property, plant and equipment	6(10), 8	38,306,302	8	38,889,940	8	38,265,431	9
Right-of-use assets	6(23)	2,907,796	1	2,890,906	1	3,001,021	1
Investment property, net	6(11), 8	1,029,812	-	956,450	-	960,812	-
Intangible assets	6(12), 6(13)	77,105,168	16	70,917,102	15	71,883,654	16
Deferred tax assets	4, 6(30)	5,159,607	1	4,769,887	1	4,807,581	1
Refundable deposits		271,584	-	270,561	-	280,313	-
Net defined benefit assets-noncurrent	4, 6(18)	-	-	-	-	14,825	-
Total non-current assets		220,719,536	45	191,972,693	42	175,659,578	39
Total assets		\$ 490,666,421	100	\$ 458,701,794	100	\$ 453,891,067	100

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

Chairman : Ming-Kai Tsai

President : Lih-Shyng Tsai

Chief Financial Officer : David Ku

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of September 30, 2020, December 31, 2019, and September 30, 2019

(September 30, 2020 and 2019 are unaudited)

(Amounts in thousands of New Taiwan Dollars)

LIABILITIES AND EQUITY	Notes	September 30, 2020	%	December 31, 2019	%	September 30, 2019	%
Current liabilities							
Short-term borrowings	6(14)	\$ 30,625,746	6	\$ 57,254,570	12	\$ 54,701,004	12
Financial liabilities at fair value through profit or loss-current	6(2)	5,232	-	9,085	-	10,571	-
Contract liabilities-current	6(21)	5,329,955	1	2,693,530	1	2,521,778	1
Trade payables		27,785,361	5	21,407,328	5	22,157,857	5
Trade payables to related parties	7	1,502,867	-	906,224	-	943,588	-
Other payables	6(15)	32,590,251	7	27,562,938	6	27,155,298	6
Other payables to related parties	7	18,886	-	20,364	-	2,948	-
Current tax liabilities	4, 6(30)	3,135,473	1	1,721,632	1	1,991,537	-
Liabilities directly associated with non-current assets held for sale	4,6(32), 7	3,500,391	1	-	-	-	-
Lease liabilities-current	6(23)	482,872	-	499,032	-	497,217	-
Other current liabilities	6(16)	26,209,489	5	18,002,871	4	17,653,411	4
Current portion of long-term liabilities	6(17), 8	3,661,499	1	1,020,441	-	886,565	-
Total current liabilities		134,848,022	27	131,098,015	29	128,521,774	28
Non-current liabilities							
Long-term borrowings	6(17), 8	-	-	165,825	-	198,060	-
Long-term payables		3,717,617	1	1,079,607	-	616,518	-
Net defined benefit liabilities-noncurrent	4, 6(18)	839,679	-	869,001	-	809,967	-
Deposits received		440,702	-	565,773	-	575,947	-
Deferred tax liabilities	4, 6(30)	5,622,914	1	6,805,508	2	6,500,601	2
Lease liabilities-noncurrent	6(23)	2,319,187	1	2,360,427	1	2,463,339	1
Non-current liabilities-others		1,574,309	-	1,358,100	-	1,374,996	-
Total non-current liabilities		14,514,408	3	13,204,241	3	12,539,428	3
Total liabilities		149,362,430	30	144,302,256	32	141,061,202	31
Equity attributable to owners of the parent							
Share capital	6(19)						
Common stock		15,887,666	3	15,896,473	3	15,896,912	4
Capital collected in advance		14,450	-	3,780	-	1,745	-
Capital surplus	6(19), 6(20), 6(33)	76,344,660	16	82,392,203	18	82,275,489	18
Retained earnings	6(19)						
Legal reserve		44,583,025	9	41,507,689	9	41,507,689	9
Undistributed earnings		154,470,984	31	127,729,843	28	118,256,224	26
Other equity	6(20)	47,130,618	10	45,276,326	10	53,393,013	12
Treasury shares	6(19)	(109,570)	-	(55,970)	-	(55,970)	-
Equity attributable to owners of the parent		338,321,833	69	312,750,344	68	311,275,102	69
Non-controlling interests	6(19), 6(33)	2,982,158	1	1,649,194	-	1,554,763	-
Total equity		341,303,991	70	314,399,538	68	312,829,865	69
Total liabilities and equity		\$ 490,666,421	100	\$ 458,701,794	100	\$ 453,891,067	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, 2020 and 2019

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

Description	Notes	Three Months Ended September 30				Nine Months Ended September 30			
		2020	%	2019	%	2020	%	2019	%
Net sales	6(21),7	\$ 97,274,734	100	\$ 67,224,354	100	\$ 225,740,762	100	\$ 181,513,352	100
Operating costs	6(7),6(24),7	(54,246,316)	(56)	(38,934,446)	(58)	(127,068,704)	(56)	(105,960,251)	(58)
Gross profit		43,028,418	44	28,289,908	42	98,672,058	44	75,553,101	42
Operating expenses	6(22),6(23),6(24),7								
Selling expenses		(3,707,585)	(4)	(3,023,989)	(5)	(9,930,926)	(4)	(7,761,254)	(4)
Administrative expenses		(2,204,838)	(2)	(1,646,627)	(2)	(5,591,388)	(2)	(4,866,805)	(3)
Research and development expenses		(22,547,479)	(23)	(16,590,241)	(25)	(55,299,882)	(25)	(46,604,213)	(26)
Expected credit (losses) gains		59,930	-	257	-	(3,476)	-	20,426	-
Total operating expenses		(28,399,972)	(29)	(21,260,600)	(32)	(70,825,672)	(31)	(59,211,846)	(33)
Operating income		14,628,446	15	7,029,308	10	27,846,386	13	16,341,255	9
Non-operating income and expenses									
Interest income	6(25)	435,647	-	881,152	2	2,054,313	1	2,892,726	2
Other income	6(26)	276,332	-	260,289	-	823,720	-	581,793	-
Other gains and losses	6(27)	67,472	-	207,695	-	198,424	-	1,450,503	1
Finance costs	6(28)	(78,212)	-	(355,045)	-	(547,477)	-	(1,272,763)	(1)
Share of profit of associates and joint ventures accounted for using the equity method	6(9)	102,408	1	(76,474)	-	315,959	-	(21,284)	-
Total non-operating income and expenses		803,647	1	917,617	2	2,844,939	1	3,630,975	2
Net income before income tax		15,432,093	16	7,946,925	12	30,691,325	14	19,972,230	11
Income tax expense	4, 6(30)	(2,065,545)	(2)	(1,044,544)	(2)	(4,209,877)	(2)	(3,150,983)	(2)
Net income		13,366,548	14	6,902,381	10	26,481,448	12	16,821,247	9
Other comprehensive income	6(9), 6(29), 6(30)								
Items that may not be reclassified subsequently to profit or loss									
Remeasurements of defined benefit plan		-	-	-	-	-	-	(15)	-
Unrealized gains (losses) from equity instrument investments measured at fair value through other comprehensive income		(9,712,087)	(10)	15,335,961	23	(3,662,376)	(2)	33,357,510	18
Share of other comprehensive income of associates and joint ventures accounted for using the equity method		10,477,789	11	4,393,795	6	20,090,809	9	5,422,574	3
Income tax relating to those items not to be reclassified to profit or loss		941,606	1	(1,539,252)	(2)	176,398	-	(3,255,835)	(2)
Items that may be reclassified subsequently to profit or loss									
Exchange differences resulting from translating the financial statements of foreign operations		(1,664,508)	(2)	(1,659,244)	(2)	(4,660,984)	(2)	(700,826)	-
Unrealized gains (losses) from debt instrument investments measured at fair value through other comprehensive income		(5,832)	-	(7,045)	-	17,965	-	35,806	-
Share of other comprehensive income of associates and joint ventures accounted for using the equity method		1,039,736	1	(164,660)	-	818,001	-	(246,480)	-
Other comprehensive income, net of tax		1,076,704	1	16,359,555	25	12,779,813	5	34,612,734	19
Total comprehensive income		\$ 14,443,252	15	\$ 23,261,936	35	\$ 39,261,261	17	\$ 51,433,981	28
Net income (loss) for the periods attributable to :									
Owners of the parent	6(31)	\$ 13,251,148		\$ 6,870,577		\$ 26,170,393		\$ 16,706,399	
Non-controlling interests	6(33)	115,400		31,804		311,055		114,848	
		\$ 13,366,548		\$ 6,902,381		\$ 26,481,448		\$ 16,821,247	
Total comprehensive income for the periods attributable to :									
Owners of the parent		\$ 14,299,631		\$ 23,252,465		\$ 38,974,824		\$ 51,333,955	
Non-controlling interests		143,621		9,471		286,437		100,026	
		\$ 14,443,252		\$ 23,261,936		\$ 39,261,261		\$ 51,433,981	
Basic Earnings Per Share (in New Taiwan Dollars)	6(31)	\$ 8.42		\$ 4.38		\$ 16.65		\$ 10.66	
Diluted Earnings Per Share (in New Taiwan Dollars)	6(31)	\$ 8.37		\$ 4.35		\$ 16.53		\$ 10.58	

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

MEDIATEK INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the nine months ended September 30, 2020 and 2019

(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	Others					
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	
Balance as of January 1, 2020	\$ 15,896,473	\$ 3,780	\$ 82,392,203	\$ 41,507,689	\$ 127,729,843	\$ (3,949,641)	\$ 50,322,680	\$ (1,096,713)	\$ (55,970)	\$ 312,750,344	\$ 1,649,194	\$ 314,399,538	
Appropriation and distribution of 2019 earnings:													
Legal reserve	-	-	-	3,075,336	(3,075,336)	-	-	-	-	-	-	-	
Cash dividends	-	-	-	-	(7,944,252)	-	-	-	-	(7,944,252)	-	(7,944,252)	
Total	-	-	-	3,075,336	(11,019,588)	-	-	-	-	(7,944,252)	-	(7,944,252)	
Cash dividends distributed from capital surplus	-	-	(8,738,677)	-	-	-	-	-	-	(8,738,677)	-	(8,738,677)	
Profit for the nine months ended September 30, 2020	-	-	-	-	26,170,393	-	-	-	-	26,170,393	311,055	26,481,448	
Other comprehensive income for the nine months ended September 30, 2020	-	-	-	-	-	(3,818,365)	16,622,796	-	-	12,804,431	(24,618)	12,779,813	
Total comprehensive income	-	-	-	-	26,170,393	(3,818,365)	16,622,796	-	-	38,974,824	286,437	39,261,261	
Share-based payment transactions	4,416	10,670	135,495	-	-	-	-	-	-	150,581	(8,673)	141,908	
Treasury stock acquired	-	-	-	-	-	-	-	-	(53,600)	(53,600)	-	(53,600)	
Adjustments due to dividends that subsidiaries received from parent company	-	-	81,845	-	-	-	-	-	-	81,845	-	81,845	
The differences between the fair value of the consideration paid or received from acquiring or disposing subsidiaries and the carrying amounts of the subsidiaries	-	-	1,137,095	-	-	-	-	-	-	1,137,095	231,821	1,368,916	
Changes in ownership interests in subsidiaries	-	-	689,967	-	-	-	-	-	-	689,967	823,379	1,513,346	
Issuance of restricted stock for employees	(13,223)	-	291,240	-	3,352	-	-	636,845	-	918,214	-	918,214	
Changes in other capital surplus	-	-	355,492	-	-	-	-	-	-	355,492	-	355,492	
Proceeds from disposal of equity instruments measured at fair value through other comprehensive income	-	-	-	-	11,586,984	-	(11,586,984)	-	-	-	-	-	
Balance as of September 30, 2020	\$ 15,887,666	\$ 14,450	\$ 76,344,660	\$ 44,583,025	\$ 154,470,984	\$ (7,768,006)	\$ 55,358,492	\$ (459,868)	\$ (109,570)	\$ 338,321,833	\$ 2,982,158	\$ 341,303,991	

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

MEDIATEK INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the nine months ended September 30, 2020 and 2019

(Amounts in thousands of New Taiwan Dollars)

Description	Nine Months Ended September 30	
	2020	2019
Cash flows from operating activities :		
Profit before tax from continuing operations	\$ 30,691,325	\$ 19,972,230
Adjustments for:		
The profit or loss items which did not affect cash flows:		
Depreciation	3,411,173	3,143,098
Amortization	3,922,161	3,062,644
Expected credit losses (gains)	3,476	(20,426)
Losses (gains) on financial assets and liabilities at fair value through profit or loss	(25,754)	(321,674)
Interest expenses	547,477	1,272,763
Gains on derecognition of financial assets measured at amortized cost	(5,279)	(114,296)
Interest income	(2,054,313)	(2,892,726)
Dividend income	(603,729)	(255,552)
Share-based payment expenses	899,319	1,698,684
Share of profit of associates and joint ventures accounted for using the equity method	(315,959)	21,284
Losses on disposal of property, plant and equipment	8,691	13,699
Property, plant and equipment transferred to expenses	37	3,159
Losses on disposal of intangible assets	36	22,936
Gains on disposal of non-current assets held for sale	-	(813,152)
Losses on disposal of investments	30,073	16,119
Others	(1,355)	121
Changes in operating assets and liabilities:		
Financial assets mandatorily measured at fair value through profit or loss	69,401	(4,317,293)
Notes receivables	(1,205)	(10,273)
Trade receivables	(13,842,802)	(1,432,798)
Trade receivables from related parties	4,189	1,605
Other receivables	(900,788)	(814,477)
Inventories	(5,633,365)	(65,569)
Prepayments	(136,085)	(635,437)
Other current assets	(224,003)	(309,367)
Contract liabilities	2,796,203	1,012,904
Trade payables	7,425,238	8,239,300
Trade payables to related parties	596,643	239,326
Other payables	6,016,092	(2,394,078)
Other payables to related parties	3,773	2,489
Other current liabilities	8,452,358	57,436
Net defined benefit liabilities	(6,900)	(9,679)
Non-current liabilities-others	(499,056)	(100,900)
Cash generated from operating activities:		
Interest received	3,273,302	2,620,062
Dividend received	598,839	350,419
Interest paid	(587,816)	(1,261,313)
Income tax paid	(2,964,382)	(2,963,384)
Net cash provided by operating activities	40,947,015	23,017,884
Cash flows from investing activities :		
Acquisition of financial assets at fair value through other comprehensive income	(2,964,864)	(2,536,295)
Proceeds from disposal of financial assets at fair value through other comprehensive income	13,647,274	8,093,666
Proceeds from capital return of financial assets at fair value through other comprehensive income	1,122,118	-
Acquisition of financial assets measured at amortized cost	(7,127,446)	(796,367)
Proceeds from redemption of financial assets measured at amortized cost	509,251	3,029,008
Acquisition of investments accounted for using the equity method	(1,164,235)	(139,689)
Proceeds from disposal of investments accounted for using the equity method	-	7,956
Acquisition of property, plant and equipment	(3,460,121)	(4,165,717)
Proceeds from disposal of property, plant and equipment	2,734	8,243
(Increase) Decrease in refundable deposits	(118,533)	8,136
Acquisition of right-of-use assets	(2,313)	-
Acquisition of intangible assets	(4,430,795)	(2,128,951)
Net cash used in investing activities	(3,986,930)	1,379,990
Cash flows from financing activities :		
(Decrease) increase in short-term borrowings	(25,836,896)	3,401,559
Repayment of long-term borrowings	(18,425)	(46,044)
(Decrease) increase in deposits received	(123,832)	387,413
Cash payment for the principal portion of the lease liabilities	(443,840)	(286,322)
Proceeds from exercise of employee stock options	502,562	49,052
Treasury stock acquired	(53,600)	-
Cash dividends	(16,588,763)	(14,161,949)
Acquisition of ownership interests in subsidiaries	-	(526,382)
Disposal of ownership interests in subsidiaries (without losing control)	1,368,916	2,281
Change in non-controlling interests	1,513,346	(11,520)
Net cash (used in) provided by financing activities	(39,680,532)	(11,191,912)
Effect of changes in exchange rate on cash and cash equivalents	(3,468,600)	(404,073)
Net (decrease) increase in cash and cash equivalents	(6,189,047)	12,801,889
Cash and cash equivalents at the beginning of the period	177,544,914	143,170,245
Cash and cash equivalents at the end of the period	\$ 171,355,867	\$ 155,972,134
Reconciliation of the balances of cash and cash equivalents at the end of the period:		
Cash and cash equivalents on the consolidated balance sheets	170,040,541	155,972,134
Cash and cash equivalents included in non-current assets held for sale	1,315,326	-
Cash and cash equivalents at the end of the period	\$ 171,355,867	\$ 155,972,134

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

1. Organization and Operation

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

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

The consolidated financial statements were authorized for issue in accordance with a resolution of the Board of Directors on October 30, 2020.

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, 2020. The application of these new standards and amendments had no material effect on the Company.

- (2) 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:

<u>Standards or Interpretations Numbers</u>	<u>The Projects of Standards or Interpretations</u>	<u>Effective Dates</u>
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, 2023
IAS 1	“Classification of Liabilities as Current or Non-current” (Amendment)	January 1, 2023
IFRS 3, IAS 16 and IAS 37	“Business Combination”, “Property, Plant and Equipment” and “Provisions, Contingent Liabilities and Contingent Assets” (Amendment) and the Annual Improvements	January 1, 2022

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Standards or Interpretations Numbers	The Projects of Standards or Interpretations	Effective Dates
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	“Financial Instruments”, “Financial Instruments: Recognition and Measurement”, “Financial Instruments: Disclosures”, “Insurance Contracts”, “Leases” - Interest Rate Benchmark Reform - Phase 2 (Amendment)	January 1, 2021

- 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, 2020 and 2019 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 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.

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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

If loses control of a subsidiary, it:

- a. derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- b. derecognizes the carrying amount of any non-controlling interest;
- c. recognizes the fair value of the consideration received;
- d. recognizes the fair value of any investment retained;
- e. recognizes any surplus or deficit in profit or loss; and
- f. 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, 2020	December 31, 2019	September 30, 2019	
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 International Technology Inc.	Research	100%	100%	100%	-
MTK	HFI Innovation Inc.	Intellectual property right management	100%	100%	100%	-
MTK	Airoha Technology Corp.	Research, manufacturing and sales	-	-	-	1
MTK	MStar France SAS	Research	100%	100%	100%	-
MTK	MStar Co., Ltd.	General investing	100%	100%	100%	-
MTK	Digimoc Holdings Limited	General investing	100%	100%	100%	-
MTK	MStar Semiconductor UK Ltd.	Research and technical services	-	-	-	2
MTK	MShining International Corporation	Sales	100%	100%	100%	-
MTK	Sigmastar Technology Inc.	General investing	-	-	-	3
MTK	Spidcom Technologies	Intellectual property right management	100%	100%	100%	-
MTK	ILI Technology Corporation	Research, manufacturing and sales	-	-	-	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, 2020	December 31, 2019	September 30, 2019	
MTK	Hsu-Si Investment Corp.	General investing	100%	-	-	5
MTK	Richtek Technology Corp.	Research, manufacturing and sales	100%	-	-	6
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%	5
MediaTek Capital Co.	RollTech Technology Co., Ltd.	Research	-	100%	67%	7
MediaTek Capital Co.	Chingis Technology Corporation	Research	100%	100%	100%	-
MediaTek Capital Co.	Velocenet Inc.	Research	-	-	100%	8
MediaTek Capital Co.	Nephos (Taiwan) Inc.	Research	-	-	100%	9
MediaTek Capital Co.	MediaTek Research Corp.	Research	100%	100%	100%	-
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%	6
Hsu-Si Investment Corp.	Airoha Technology Corp.	Research, manufacturing and sales	100%	100%	100%	1
Hsu-Si Investment Corp.	Airoha (Cayman) Inc.	General investing	100%	100%	100%	-
Richtek Technology Corp.	Richstar Group Co., Ltd.	General investing	-	100%	100%	10
Richtek Technology Corp.	Ironman Overseas Co., Ltd.	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, 2020	December 31, 2019	September 30, 2019	
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.	General investing	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%	11
Richtek Technology Corp.	Richtek Korea LLC.	Research and technical services	100%	100%	-	11
Richtek Technology Corp.	Richtek USA Inc.	Sales and technical services	100%	-	-	10
Richtek Technology Corp.	Richpower Microelectronics Co., Ltd.	Technical services	100%	-	-	12
Richstar Group Co., Ltd.	Richtek USA Inc.	Sales and technical services	-	100%	100%	10
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.	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%	12
Li-Yu Investment Corp.	Corporate Event Limited	Technical services	-	51%	51%	13

(To be continued)

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			September 30, 2020	December 31, 2019	September 30, 2019	
Richtek Global Marketing Co., Ltd.	Richtek Korea LLC.	Sales and technical services	-	-	100%	11
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%	14
MediaTek India Technology Pvt. Ltd.	MStar Semiconductor India Private Limited	Research and technical services	-	100%	-	15
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%	16
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	-	-	-	17

(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, 2020	December 31, 2019	September 30, 2019	
Gaintech Co. Limited	Nepfos Cayman Co. Limited	General investing	100%	100%	100%	-
Gaintech Co. Limited	White Dwarf Limited	General investing	-	-	100%	18
Gaintech Co. Limited	Zelus Technology (HangZhou) Ltd.	Research and sales	90%	90%	90%	-
Gaintech Co. Limited	IStar Technology Ltd.	General investing	100%	100%	100%	-
Gaintech Co. Limited	MediaTek Research UK Limited	Research	-	100%	100%	19
Gaintech Co. Limited	ILI Technology Holding Corporation	General investing	100%	100%	100%	-
Gaintech Co. Limited	Lepower (HK) Limited	General investing	100%	100%	-	16
Gaintech Co. Limited	Sigmastar Technology Inc.	General investing	100%	100%	100%	3
Gaintech Co. Limited	Mountain Capital Fund, L.P.	General investing	90%	90%	-	20
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%	-

(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, 2020	December 31, 2019	September 30, 2019	
MTK Wireless Limited (UK)	MStar Semiconductor UK Ltd.	Research and technical services	100%	100%	100%	2
MTK Wireless Limited (UK)	Nephos Inc.	Research	-	-	100%	17
Gold Rich International (Samoa) Limited	Gold Rich International (HK) Limited	General investing	100%	100%	100%	-
Digital Lord Limited	Lepower (HK) Limited	General investing	-	-	100%	16
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 (Cayman) Inc.	MediaTek Research UK Limited	Research	100%	-	-	19
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%	-
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%	15
Sigmastar Technology Inc.	Xiamen Sigmastar Technology Inc.	Research, manufacturing and sales	50%	80%	90%	-
Sigmastar Technology Inc.	InnoFusion Technology Corp.	Technical services	100%	100%	100%	-
Xiamen Sigmastar Technology Inc.	Shenzhen Sing Chen Technology Inc.	Research	100%	100%	100%	-
Xiamen Sigmastar Technology Inc.	SigmaStar Technology Inc. (Shanghai)	Research	100%	100%	100%	-

(To be continued)

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			September 30, 2020	December 31, 2019	September 30, 2019	
MStar Co., Ltd.	MStar Software R&D (Shenzhen), Ltd.	Technical services	100%	100%	100%	-
MStar Software R&D (Shenzhen), Ltd.	MStar Chen Xi Software Shanghai Ltd.	Technical services	100%	100%	100%	-
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%	-
ILI Technology Holding Corporation	ILI Technology Corporation	Research, manufacturing and sales	100%	100%	100%	4
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	100%	100%	90%	-
Nephos (Hefei) Co., Ltd.	Nephos (Beijing) Co., Ltd.	Research	-	100%	100%	21
Xuxin Investment (Shanghai) Inc.	Xuxi (Shanghai) Management Consulting Co., Ltd.	General investing	100%	100%	100%	22
Xuxi (Shanghai) Management Consulting Co., Ltd.	Hefei Xuhui Management Consulting Co., Ltd.	General investing	100%	100%	100%	23
Lepower (HK) Limited	Shanghai Celeste Technology Co., Ltd.	Research, manufacturing and sales	-	-	-	24

1. 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.
2. 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.
3. 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.
4. 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)

5. For the purpose of reorganization, the 100% ownership of Hsu-Si Investment Corp., which was previously owned by Hsu-Ta Investment Corp., was transferred to MediaTek Inc. in April 2020.
6. For the purpose of reorganization, the 100% ownership of Richtek Technology Corp., which was previously owned by Hsu-Si Investment Corp., was transferred to MediaTek Inc. in April 2020.
7. For the purpose of reorganization, RollTech Technology Co., Ltd. was dissolved due to merger with MediaTek Capital Co. in February 2020.
8. For the purpose of reorganization, Velocenet Inc. was dissolved due to merger with MediaTek Capital Co. in December 2019.
9. For the purpose of reorganization, Nephos (Taiwan) Inc. was dissolved due to merger with MediaTek Capital Co. in December 2019.
10. For the purpose of reorganization, Richstar Group Co., Ltd. has been liquidated in July 2020. The 100% ownership of Richtek USA Inc., which was previously owned by Richstar Group Co., Ltd., was transferred to Richtek Technology Corp.
11. For the purpose of reorganization, Richtek Global Marketing Co., Ltd. has been liquidated in November 2019. The 100% ownership of Richtek Korea LLC., which was previously owned by Richtek Global Marketing Co., Ltd., was transferred to Richtek Technology Corp.
12. For the purpose of reorganization, the 100% ownership of Richpower Microelectronics Co., Ltd., which was previously owned by Richpower Microelectronics Corp., was transferred to Richtek Technology Corp. in July 2020.
13. For the purpose of reorganization, Corporate Event Limited has been liquidated in March 2020.
14. For the purpose of reorganization, Airoha Technology (Samoa) Corp. has been liquidated in January 2020.
15. For the purpose of reorganization, the 100% ownership of MStar Semiconductor India Private Limited, which was previously owned by MediaTek Investment Singapore Pte. Ltd., was transferred to MediaTek India Technology Pvt. Ltd. in November 2019. Moreover, MStar Semiconductor India Private Limited was dissolved due to merger with MediaTek India Technology Pvt. Ltd. in June 2020.
16. For the purpose of reorganization, Digital Lord Limited has been liquidated in October 2019. The 100% ownership of Lepower (HK) Limited, which was previously owned by Digital Lord Limited, was transferred to Gaintech Co. Limited.
17. 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. Moreover, Nephos Inc. was dissolved due to merger with MediaTek USA Inc. in October 2019.
18. For the purpose of reorganization, White Dwarf Limited has been liquidated in October 2019.
19. For the purpose of reorganization, the 100% ownership of MediaTek Research UK Limited, which was previously owned by Gaintech Co. Limited, was transferred to EcoNet (Cayman) Inc. in August 2020.
20. Mountain Capital Fund, L.P. has been included in the consolidated entities as the Company obtained control over it.
21. For the purpose of reorganization, Nephos (Beijing) Co., Ltd. has been liquidated in September 2020.
22. Xuxin Investment (Shanghai) Inc. established Xuxi (Shanghai) Management Consulting Co., Ltd. in April 2019.
23. Xuxi (Shanghai) Management Consulting Co., Ltd. established Hefei Xuhui Management Consulting Co., Ltd. in April 2019.
24. Lepower (HK) Limited established Shanghai Celeste Technology Co., Ltd. in February 2020. Moreover, Lepower (HK) Limited has been liquidated in September 2020.

MEDIATEK INC. AND SUBSIDIARIES

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

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

Except for the accounting policies listed below, the same accounting policies have been followed in the consolidated financial statements for the nine-month periods ended September 30, 2020 and 2019 as were applied in the preparation of the Company's consolidated financial statements for the year ended December 31, 2019. For the summary of other significant accounting policies, please refer to the consolidated financial statements for the year ended December 31, 2019.

- (1) 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.
- (2) 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.
- (3) Non-current assets or disposal groups are classified as held for sale if they are available for immediate sale in their present condition subject only to terms that are usual and customary for sale of such assets or disposal group and that are highly probable to complete within one year. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortized.

5. Significant Accounting Judgments, Estimates and Assumptions

The same significant accounting judgments, estimates and assumptions have been followed in the consolidated financial statements for the nine-month periods ended September 30, 2020 and 2019 as were applied in the preparation of the Company's consolidated financial statements for the year ended December 31, 2019. Please refer to the consolidated financial statements for the year ended December 31, 2019.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

6. Contents of Significant Accounts

(1) Cash and cash equivalents

	September 30, 2020	December 31, 2019	September 30, 2019
Cash on hand and petty cash	\$ 1,669	\$ 4,182	\$ 4,563
Checking and savings accounts	22,489,897	20,314,514	22,464,816
Time deposits	147,254,264	157,063,421	133,263,120
Cash equivalents - repurchase agreements	129,325	102,787	20,177
Cash in transit	165,386	60,010	219,458
Total	<u>\$ 170,040,541</u>	<u>\$ 177,544,914</u>	<u>\$ 155,972,134</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.

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

	September 30, 2020	December 31, 2019	September 30, 2019
<u>Current</u>			
<u>Financial assets mandatorily measured at fair value through profit or loss</u>			
Funds	\$ 6,834,623	\$ 5,891,239	\$ 6,358,901
Linked deposits	1,420,376	238,004	307,728
Bonds	69,902	132,466	558,756
Stocks	-	76,404	76,743
Forward exchange contracts	19,857	4,621	13,806
Total	<u>\$ 8,344,758</u>	<u>\$ 6,342,734</u>	<u>\$ 7,315,934</u>
<u>Held for trading financial liabilities</u>			
Forward exchange contracts	<u>\$ 5,232</u>	<u>\$ 9,085</u>	<u>\$ 10,571</u>

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, 2020	December 31, 2019	September 30, 2019
<u>Noncurrent</u>			
<u>Financial assets mandatorily</u>			
<u>measured at fair value through</u>			
<u>profit or loss</u>			
Linked deposits	\$ 3,238,267	\$ 5,379,044	\$ 5,045,275
Bonds	546,807	612,052	429,254
Trust funds	794,903	576,848	549,181
Stocks	198,175	300,259	325,825
Total	<u>\$ 4,778,152</u>	<u>\$ 6,868,203</u>	<u>\$ 6,349,535</u>

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

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

	September 30, 2020	December 31, 2019	September 30, 2019
<u>Current</u>			
<u>Debt instrument investments</u>			
<u>measured at fair value through</u>			
<u>other comprehensive income</u>			
Bonds	\$ 261,347	\$ 238,355	\$ 892,654
<u>Equity instrument investments</u>			
<u>measured at fair value through</u>			
<u>other comprehensive income</u>			
Listed company stocks	5,663,276	18,651,002	41,206,236
Unlisted company stocks	-	137,247	135,496
Subtotal	<u>5,663,276</u>	<u>18,788,249</u>	<u>41,344,732</u>
Total	<u>\$ 5,924,623</u>	<u>\$ 19,026,604</u>	<u>\$ 42,237,386</u>

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, 2020	December 31, 2019	September 30, 2019
<u>Noncurrent</u>			
<u>Debt instrument investments</u>			
<u>measured at fair value through</u>			
<u>other comprehensive income</u>			
Bonds	\$ 1,329,939	\$ 1,627,019	\$ 1,651,111
<u>Equity instrument investments</u>			
<u>measured at fair value through</u>			
<u>other comprehensive income</u>			
Listed company stocks	21,539,905	26,415,109	12,102,201
Capital	15,686,607	11,979,752	7,958,351
Unlisted company stocks	4,641,300	7,207,708	6,369,440
Funds	3,252,610	2,993,489	2,792,722
Subtotal	45,120,422	48,596,058	29,222,714
Total	\$ 46,450,361	\$ 50,223,077	\$ 30,873,825

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

No impairment was recognized for debt instrument investments measured at fair value through other comprehensive income. Please refer to Note 12 for more details on credit risk.

The Company has equity instrument investments measured at fair value through other comprehensive income. Details on dividends recognized for the three months and nine months ended September 30, 2020 and 2019 are as follows:

	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Related to investments held at the end of the reporting period	\$ 217,170	\$ 181,782	\$ 603,729	\$ 255,552
Dividends recognized during the period	\$ 217,170	\$ 181,782	\$ 603,729	\$ 255,552

MEDIATEK INC. AND SUBSIDIARIES

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

In consideration of disposition according to the Company's investment strategy of certain investments, the Company derecognized certain 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, 2020 and 2019 are as follows:

	Three months ended		Nine months ended	
	September 30		September 30	
	2020	2019	2020	2019
The fair value of the investments at the date of derecognition	\$ 3,661,411	\$ 3,652,293	\$ 12,983,856	\$ 7,385,369
The cumulative gain on disposal	\$ 3,647,378	\$ 2,808,191	\$ 12,854,752	\$ 5,730,189

(4) Financial assets measured at amortized cost

	September 30, 2020	December 31, 2019	September 30, 2019
<u>Current</u>			
Bonds	\$ -	\$ 259,415	\$ 260,565
<u>Noncurrent</u>			
Bonds	7,596,929	2,253,036	724,275
Time deposits (including the portion with maturity later than one year)	1,835,433	317,006	291,629
Subtotal	9,432,362	2,570,042	1,015,904
Total	\$ 9,432,362	\$ 2,829,457	\$ 1,276,469

No loss allowance was recognized for financial assets measured at amortized cost. Please refer to Note 8 for more details on financial assets measured at amortized cost under pledge 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)

(5) Trade receivables and trade receivables from related parties

	September 30, 2020	December 31, 2019	September 30, 2019
Trade receivables	\$ 38,030,913	\$ 26,920,545	\$ 30,519,409
Less: allowance for doubtful debts	(39,103)	(91,274)	(87,208)
Subtotal	<u>37,991,810</u>	<u>26,829,271</u>	<u>30,432,201</u>
Trade receivables from related parties	811	5,000	5,000
Less: allowance for doubtful debts	-	-	-
Subtotal	<u>811</u>	<u>5,000</u>	<u>5,000</u>
Total	<u>\$ 37,992,621</u>	<u>\$ 26,834,271</u>	<u>\$ 30,437,201</u>

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

Trade receivables are generally on 30 to 150 day terms. The total carrying amounts were NT\$38,031,724 thousand, NT\$26,925,545 thousand and NT\$30,524,409 thousand as of September 30, 2020, December 31, 2019, and September 30, 2019, 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, 2020 and 2019. 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 without recourse were NT\$4,818,617 thousand, NT\$2,472,998 thousand and NT\$3,587,920 thousand as of September 30, 2020, December 31, 2019, and September 30, 2019, respectively.

(6) Other receivables

	September 30, 2020	December 31, 2019	September 30, 2019
Factoring receivables	\$ 4,708,505	\$ 3,436,924	\$ 4,046,405
Others	1,000,187	2,876,154	3,003,966
Total	<u>\$ 5,708,692</u>	<u>\$ 6,313,078</u>	<u>\$ 7,050,371</u>

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\$4,708,505 thousand, NT\$3,436,924 thousand and NT\$4,046,405 thousand as of September 30, 2020, December 31, 2019, and September 30, 2019, respectively.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

As of September 30, 2020, December 31, 2019, and September 30, 2019, trade receivables derecognized were summarized (by transferee) as follows:

A. As of September 30, 2020:

The Factor (Transferee)	Interest Rate (%)	Trade receivables derecognized (US\$'000)	Cash withdrawn (US\$'000)	Unutilized (US\$'000)	Credit line (US\$'000)
BNP Paribas	-	\$ 97,074	\$ -	\$ 97,074	\$ 305,000
Taishin					
International Bank	-	61,949	-	61,949	121,000
SMBC	-	-	-	-	12,000
CTBC	-	1,342	-	1,342	1,800
SinoPac	-	527	-	527	5,000
CHB	-	288	-	288	1,200
SKCB	-	480	-	480	2,500
ESB	-	-	-	-	15,000
Total		<u>\$ 161,660</u>	<u>\$ -</u>	<u>\$ 161,660</u>	<u>\$ 463,500</u>

B. As of December 31, 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	-	\$ 67,421	\$ -	\$ 67,421	\$ 116,000
BNP Paribas	-	46,587	-	46,587	155,000
CHB	-	153	-	153	1,200
CTBC	-	-	-	-	1,675
SMBC	-	-	-	-	12,000
SKCB	-	-	-	-	2,500
Total		<u>\$ 114,161</u>	<u>\$ -</u>	<u>\$ 114,161</u>	<u>\$ 288,375</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, 2019:

The Factor (Transferee)	Interest Rate (%)	Trade		Unutilized (US\$'000)	Credit line (US\$'000)
		derecognized (US\$'000)	Cash withdrawn (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		\$ 130,352	\$ -	\$ 130,352	\$ 288,700

(7) Inventories

	September 30, 2020	December 31, 2019	September 30, 2019
Raw materials	\$ 2,267,712	\$ 1,944,316	\$ 2,354,819
Work in progress	19,802,370	17,247,335	19,604,389
Finished goods	8,940,037	8,423,586	9,068,848
Net amount	\$ 31,010,119	\$ 27,615,237	\$ 31,028,056

The cost of inventories recognized in expenses amounted to NT\$54,246,316 thousand and NT\$38,934,446 thousand, including the reversal of write-down of inventories of NT\$82,050 thousand and NT\$169,835 thousand for the three months ended September 30, 2020 and 2019 because of circumstances that caused the net realizable value of inventory to be lower than its cost no longer existed, respectively.

The cost of inventories recognized in expenses amounted to NT\$127,068,704 thousand and NT\$105,960,251 thousand, including the reversal of write-down of inventories of NT\$24,257 thousand for the nine months ended September 30, 2020 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\$952,347 thousand for the nine months ended September 30, 2019.

Inventories 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)

(8) Prepayments

	September 30, 2020	December 31, 2019	September 30, 2019
Prepaid expenses	\$ 814,957	\$ 864,904	\$ 1,030,371
Input tax	401,212	187,474	356,895
Others	401,610	497,707	732,061
Total	<u>\$ 1,617,779</u>	<u>\$ 1,550,085</u>	<u>\$ 2,119,327</u>

(9) Investments accounted for using the equity method

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

Investees	September 30, 2020		December 31, 2019		September 30, 2019	
	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
Vanchip (Tianjin) Technology Co., Ltd.	1,365,385	40	-	-	-	-
FONTAINE CAPITAL FUND, L.P.	2,307,736	57	1,180,774	57	1,510,460	57
Others	1,006,805	-	1,074,961	-	1,185,918	-
Subtotal	<u>4,679,926</u>		<u>2,255,735</u>		<u>4,879,309</u>	
Investments in jointly controlled entities:						
Yuan Ke (Pingtan) Investment Fund Limited Partnership	30,598,466	81	11,360,790	81	13,327,368	81
Total	<u>\$ 35,278,392</u>		<u>\$ 13,616,525</u>		<u>\$ 18,206,677</u>	

MEDIATEK INC. AND SUBSIDIARIES

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

Subsidiary Gaintech Co. Limited obtained control over Mountain Capital Fund, L.P. and the Company included it in the consolidated entities.

Subsidiary Gaintech Co. Limited acquired the 40% ownership of Vanchip (Tianjin) Technology Co., Ltd (“Vanchip”) by cash in the amount of USD\$40,000,000 in March 2020. In addition, the Company does not have the ability to direct the relevant activities of Vanchip. Therefore, the Company does not control Vanchip but owns significant influence over it.

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.

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		Nine months ended	
	September 30		September 30	
	2020	2019	2020	2019
Profit (loss) from				
continuing operations	\$ 80,842	\$ (26,076)	\$ 102,555	\$ (113,735)
Other comprehensive				
income (post-tax)	8,472	(6,780)	6,408	(6,358)
Total comprehensive				
income	<u>\$ 89,314</u>	<u>\$ (32,856)</u>	<u>\$ 108,963</u>	<u>\$ (120,093)</u>

MEDIATEK INC. AND SUBSIDIARIES

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

B. Investments in jointly controlled entities

	Three months ended		Nine months ended	
	September 30		September 30	
	2020	2019	2020	2019
Profit (loss) from				
continuing operations	\$ (12,277)	\$ (935)	\$ 231,893	\$ 121,299
Other comprehensive				
income (post-tax)	-	-	-	-
Total comprehensive				
income	<u>\$ (12,277)</u>	<u>\$ (935)</u>	<u>\$ 231,893</u>	<u>\$ 121,299</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, 2020, December 31, 2019, and September 30, 2019.

(10)Property, plant and equipment

	September 30,	December 31,	September 30,
	2020	2019	2019
Owner-occupied property, plant			
and equipment	<u>\$ 38,306,302</u>	<u>\$ 38,889,940</u>	<u>\$ 38,265,431</u>

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

	Land	Buildings and facilities	Machinery equipment	Computer and telecommunication equipment	Testing equipment	Miscellaneous equipment	Construction in progress and equipment awaiting examination	Total
Cost:								
As of January 1, 2020	\$ 5,600,152	\$ 29,837,633	\$ 1,270,287	\$ 7,623,697	\$ 10,593,637	\$ 1,693,986	\$ 623,585	\$ 57,242,977
Additions-acquired separately	-	126,889	144,335	797,777	1,554,780	258,631	579,575	3,461,987
Disposals	-	(16,958)	(1,351)	(136,346)	(29,310)	(145,823)	(8)	(329,796)
Transfers	(144,202)	(568,843)	(276,158)	-	99,774	(114,468)	(287,129)	(1,291,026)
Exchange differences	-	(126,938)	(1,402)	(57,178)	(35,340)	(39,312)	(3,577)	(263,747)
As of September 30, 2020	<u>\$ 5,455,950</u>	<u>\$ 29,251,783</u>	<u>\$ 1,135,711</u>	<u>\$ 8,227,950</u>	<u>\$ 12,183,541</u>	<u>\$ 1,653,014</u>	<u>\$ 912,446</u>	<u>\$ 58,820,395</u>
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>

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

	Land	Buildings and facilities	Machinery equipment	Computer and telecommunication equipment	Testing equipment	Miscellaneous equipment	Construction in progress and equipment awaiting examination	Total
Depreciation and impairment:								
As of January 1, 2020	\$ -	\$ 4,986,476	\$ 639,192	\$ 5,252,552	\$ 6,551,451	\$ 923,366	\$ -	\$ 18,353,037
Depreciation	-	682,102	146,377	775,596	1,058,016	330,187	-	2,992,278
Disposals	-	(9,089)	(1,351)	(133,977)	(29,178)	(144,739)	-	(318,334)
Transfers	-	(191,043)	(144,766)	-	(26,953)	(32,703)	-	(395,465)
Exchange differences	-	(12,389)	(1,243)	(45,400)	(28,230)	(30,161)	-	(117,423)
As of September 30, 2020	<u>\$ -</u>	<u>\$ 5,456,057</u>	<u>\$ 638,209</u>	<u>\$ 5,848,771</u>	<u>\$ 7,525,106</u>	<u>\$ 1,045,950</u>	<u>\$ -</u>	<u>\$ 20,514,093</u>
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, 2020	<u>\$ 5,455,950</u>	<u>\$ 23,795,726</u>	<u>\$ 497,502</u>	<u>\$ 2,379,179</u>	<u>\$ 4,658,435</u>	<u>\$ 607,064</u>	<u>\$ 912,446</u>	<u>\$ 38,306,302</u>
December 31, 2019	<u>\$ 5,600,152</u>	<u>\$ 24,851,157</u>	<u>\$ 631,095</u>	<u>\$ 2,371,145</u>	<u>\$ 4,042,186</u>	<u>\$ 770,620</u>	<u>\$ 623,585</u>	<u>\$ 38,889,940</u>
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>

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

Please refer to Note 6. (32) for more details on property, plant and equipment reclassified to non-current assets held for sale.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(11) Investment property

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	Total
Cost:				
As of January 1, 2020	\$ 201,536	\$ 802,035	\$ 67,992	\$ 1,071,563
Transfers	(1,215)	156,129	11,717	166,631
Exchange differences	-	(5,187)	(67)	(5,254)
As of September 30, 2020	<u>\$ 200,321</u>	<u>\$ 952,977</u>	<u>\$ 79,642</u>	<u>\$ 1,232,940</u>
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>
Depreciation and impairment:				
As of January 1, 2020	\$ -	\$ 112,853	\$ 2,260	\$ 115,113
Depreciation	-	16,993	1,957	18,950
Transfers	-	69,328	476	69,804
Exchange differences	-	(728)	(11)	(739)
As of September 30, 2020	<u>\$ -</u>	<u>\$ 198,446</u>	<u>\$ 4,682</u>	<u>\$ 203,128</u>
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>
Net carrying amount as of:				
September 30, 2020	<u>\$ 200,321</u>	<u>\$ 754,531</u>	<u>\$ 74,960</u>	<u>\$ 1,029,812</u>
December 31, 2019	<u>\$ 201,536</u>	<u>\$ 689,182</u>	<u>\$ 65,732</u>	<u>\$ 956,450</u>
September 30, 2019	<u>\$ 201,536</u>	<u>\$ 693,960</u>	<u>\$ 65,316</u>	<u>\$ 960,812</u>

MEDIATEK INC. AND SUBSIDIARIES

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

	Three months ended		Nine months ended	
	September 30		September 30	
	2020	2019	2020	2019
Rental income from investment properties	\$ 29,502	\$ 27,180	\$ 90,319	\$ 86,092
Less:				
Direct operating expenses from investment properties generating rental income	(6,693)	(5,960)	(18,950)	(18,033)
Total	\$ 22,809	\$ 21,220	\$ 71,369	\$ 68,059

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

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

Based on comparative approach:	September 30, 2020	December 31, 2019	September 30, 2019
Fair value	\$ 1,592,914	\$ 1,386,439	\$ 1,382,483
Based on comparative approach and income approach:	September 30, 2020	December 31, 2019	September 30, 2019
Fair value	\$ 263,382	\$ 263,382	\$ 263,076
Income capitalization rate	1.10%-3.44%	1.10%-3.44%	1.05%-3.24%

The fair values of investment properties were NT\$1,649,821 thousand and NT\$1,558,665 thousand as of December 31, 2019 and 2018, 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, 2020 and 2019.

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, 2020	\$ 772,487	\$ 730,453	\$ 5,114,146	\$ 14,554,714	\$ 65,450,277	\$ 86,622,077
Additions-acquired separately	-	194,536	-	10,072,299	-	10,266,835
Disposals	-	(121,705)	-	(3,982,759)	-	(4,104,464)
Transfers	-	(52,957)	-	(153,845)	(64,291)	(271,093)
Exchange differences	-	(1,002)	-	(69,356)	(17,559)	(87,917)
As of September 30, 2020	<u>\$ 772,487</u>	<u>\$ 749,325</u>	<u>\$ 5,114,146</u>	<u>\$ 20,421,053</u>	<u>\$ 65,368,427</u>	<u>\$ 92,425,438</u>
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>

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, 2020	\$ 617,393	\$ 357,740	\$ 3,361,452	\$ 11,368,390	\$ -	\$ 15,704,975
Amortization	41,060	192,337	486,821	3,201,943	-	3,922,161
Disposals	-	(121,705)	-	(3,982,723)	-	(4,104,428)
Transfers	-	(21,782)	-	(116,303)	-	(138,085)
Exchange differences	-	19	-	(64,372)	-	(64,353)
As of September 30, 2020	<u>\$ 658,453</u>	<u>\$ 406,609</u>	<u>\$ 3,848,273</u>	<u>\$ 10,406,935</u>	<u>\$ -</u>	<u>\$ 15,320,270</u>
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>
Net carrying amount as of:						
September 30, 2020	<u>\$ 114,034</u>	<u>\$ 342,716</u>	<u>\$ 1,265,873</u>	<u>\$ 10,014,118</u>	<u>\$ 65,368,427</u>	<u>\$ 77,105,168</u>
December 31, 2019	<u>\$ 155,094</u>	<u>\$ 372,713</u>	<u>\$ 1,752,694</u>	<u>\$ 3,186,324</u>	<u>\$ 65,450,277</u>	<u>\$ 70,917,102</u>
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>

Please refer to Note 6. (32) for more details on intangible assets reclassified to non-current assets held for sale.

MEDIATEK INC. AND SUBSIDIARIES

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

(13) Impairment testing of goodwill

The Company has no intangible assets with indefinite lives. Goodwill acquired through business combination has been allocated 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, 2019. The Company did not identify any impairment of goodwill for the year ended December 31, 2019.

(14) Short-term borrowings

	September 30, 2020	December 31, 2019	September 30, 2019
Unsecured bank loans	\$ 30,625,746	\$ 57,254,570	\$ 54,701,004
Interest rates	0.5%~1.69%	2.05%-2.55%	1.94%~2.67%

(15) Other payables

	September 30, 2020	December 31, 2019	September 30, 2019
Accrued salaries and bonuses	\$ 20,891,283	\$ 18,180,385	\$ 17,271,692
Accrued royalties	1,884,869	2,244,203	2,249,324
Others	9,814,099	7,138,350	7,634,282
Total	\$ 32,590,251	\$ 27,562,938	\$ 27,155,298

(16) Other current liabilities

	September 30, 2020	December 31, 2019	September 30, 2019
Refund liabilities	\$ 25,573,901	\$ 17,514,391	\$ 17,331,570
Others	635,588	488,480	321,841
Total	\$ 26,209,489	\$ 18,002,871	\$ 17,653,411

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, 2020 are as follows:

Please refer to Note 6. (32) for more details on long-term borrowing reclassified to liabilities directly associated with non-current assets held for sale.

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

Lenders	December 31, 2019	Interest Rate (%)	Maturity date and terms of repayment
Secured long-term loan from Shin Kong Bank	\$ 202,675	1.40%	Effective from October 30, 2017, principal is repaid in 16 semi-annual payments with monthly interest payments.
Less: current portion	<u>(36,850)</u>		
Noncurrent portion	<u>\$ 165,825</u>		

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-annual payments with monthly interest payments.
Total	<u>234,910</u>		
Less: current portion	<u>(36,850)</u>		
Noncurrent portion	<u>\$ 198,060</u>		

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

MEDIATEK INC. AND SUBSIDIARIES

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

(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, 2020 and 2019 were NT\$455,664 thousand and NT\$454,789 thousand, respectively. Pension expenses under the defined contribution plan for the nine months ended September 30, 2020 and 2019 were NT\$1,259,449 thousand and NT\$1,377,233 thousand, respectively.

Defined benefits plan

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

Pension expenses under the defined benefits plan for the three months ended September 30, 2020 and 2019 were NT\$3,703 thousand and NT\$4,354 thousand, respectively. Pension expenses under the defined benefits plan for the nine months ended September 30, 2020 and 2019 were NT\$11,107 thousand and NT\$13,162 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)

(19) Equity

A. Share capital

MTK's authorized capital as of September 30, 2020, December 31, 2019, and September 30, 2019 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\$15,887,666 thousand, NT\$15,896,473 thousand, and NT\$15,896,912 thousand, divided into 1,588,766,587 shares, 1,589,647,349 shares, and 1,589,691,202 shares as of September 30, 2020, December 31, 2019, and September 30, 2019, 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, 2020, 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 1,322,316 shares and 6,222,439 shares of issued restricted stocks for employees during the nine months ended September 30, 2020 and 2019, respectively. Relevant regulators' approvals have been obtained and related registration processes have been completed.

MTK issued 1,508,613 new shares for the nine months ended September 30, 2020, at par value of NT\$10 for exercising employee stock options. The aforementioned new issued shares (NT\$14,450 thousand in the amount) were not yet registered and therefore were classified as capital collected in advance as of September 30, 2020.

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)

B. Capital surplus

	September 30, 2020	December 31, 2019	September 30, 2019
Additional paid-in capital	\$ 69,130,943	\$ 76,646,751	\$ 76,599,397
Treasury share transactions	1,759,683	1,677,838	1,677,838
The difference between the fair value of the consideration paid or received from acquiring or disposing subsidiaries and the carrying amounts of the subsidiaries	1,138,087	992	-
Changes in ownership interests in subsidiaries	1,863,572	1,173,605	1,173,605
Donated assets	1,261	1,261	1,261
From share of changes in net assets of associates	9,810	9,810	-
Employee stock options	356,786	353,275	425,617
Restricted stocks for employees	1,327,444	2,127,089	2,134,050
Others	757,074	401,582	263,721
Total	<u>\$ 76,344,660</u>	<u>\$ 82,392,203</u>	<u>\$ 82,275,489</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

On March 20, 2020, Board of Directors of the Company resolved to purchase and retire the treasury shares. During the period from May 14, 2020 to May 15, 2020, the Company purchased 130,000 common shares in the amounts of NT\$53,600 thousand on the centralized securities exchange market, which has not yet been cancelled as of September 30, 2020.

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, 2020, December 31, 2019, and September 30, 2019, 7,794,085 shares of MTK's common shares amounting to NT\$55,970 thousand were held by the subsidiary, MediaTek Capital Co. These shares held by MediaTek Capital Co. were acquired for the purpose of financing before the amendment of the Company Act on November 12, 2001.

As of December 31, 2019, and September 30, 2019, 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;
- d. allocation or reverse of special reserves as required by law or government authorities;
- e. the remaining net profits and the retained earnings from previous years will be allocated as shareholders' dividend. The Board of Directors will prepare a distribution proposal and submit the same to the shareholders' meeting for review and approval by a resolution.

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

According to the Company Act, MTK needs to set aside amount to legal reserve unless where such legal reserve amounts to the total 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.

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 2019 and 2018 earnings distribution and dividends per share as resolved by general shareholders' meeting on June 11, 2020 and June 14, 2019, respectively, are as follows:

	Appropriation of earnings		Dividends per share (NT\$)	
	2019	2018	2019	2018
Legal reserve	\$ 3,075,336	\$ 2,076,050	-	-
Cash dividends-common stock	7,944,252	9,525,233	\$ 5.00	\$ 6.00
Total	<u>\$ 11,019,588</u>	<u>\$ 11,601,283</u>		

In addition, the general shareholders' meeting on June 11, 2020 and June 14, 2019 resolved to distribute the additional paid-in capital by cash in the amount of NT\$8,738,677 thousand and NT\$4,762,617 thousand, or NT\$5.5 per share and NT\$3.0 per share, respectively.

E. Non-controlling interests

	Nine months ended September 30	
	2020	2019
Beginning balance	\$ 1,649,194	\$ 1,379,686
Gains attributable to non-controlling interests	311,055	114,848
Other comprehensive income (losses), attributable to non-controlling interests, net of tax:		
Exchange differences resulting from translating the financial statements of foreign operations	(24,618)	(14,822)
Acquisition of additional interest in a subsidiary	231,821	21,640
Share-based payment transactions	(8,673)	53,411
Changes in ownership interests in subsidiaries	823,379	-
Ending balance	<u>\$ 2,982,158</u>	<u>\$ 1,554,763</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 May 2010, August 2011, August 2012 and August 2013, MTK was authorized by the FSC, Executive Yuan, to issue employee stock options of 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, 2020 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)
2010.08.27	1,605,757	-	-	397.8
2010.11.04	65,839	1,634	1,634	370.5
2011.08.24	2,109,871	307,522	307,522	272.6
2012.08.14	1,346,795	317,921	317,921	281.9
2013.08.22	1,436,343	474,786	474,786	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:

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

Employee Stock Option	Nine months ended September 30			
	2020		2019	
	Options (Unit)	Weighted-average Exercise Price per Share (NT\$)	Options (Unit)	Weighted-average Exercise Price per Share (NT\$)
Outstanding at beginning of period	2,721,463	\$ 329.0	3,883,721	\$ 337.5
Granted	-	-	-	-
Exercised (Note)	(1,508,613)	333.1	(174,472)	281.5
Forfeited (Expired)	(110,987)	395.8	(554,015)	409.6
Outstanding at end of period	<u>1,101,863</u>	316.5	<u>3,155,234</u>	327.5
Exercisable at end of period	<u>1,101,863</u>		<u>3,155,234</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\$632.2 and NT\$367.7 for the nine months ended September 30, 2020 and 2019, respectively.

The information on the outstanding share-based payment plan as of September 30, 2020 and 2019 is as follows:

Date of grant	Range of Exercise Price (NT\$)	September 30, 2020		September 30, 2019	
		Outstanding stock options	Outstanding stock options	Outstanding stock options	Outstanding stock options
		Weighted- average Expected Remaining	Weighted- average Exercise Price per Share (NT\$)	Weighted- average Expected Remaining	Weighted- average Exercise Price per Share (NT\$)
2010.05.10	\$ 370.5	-	\$ 370.5	-	\$ 397.4
2011.08.09	272.6	-	272.6	-	272.6
2012.08.09	281.9	-	281.9	-	281.9
2013.08.09	368.0	-	368.0	0.42	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 15, 2018, the shareholders' meeting approved to issue gratuitous restricted stocks for employees, at a total of 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 issued 12,259,550, 2,205,888, 17,818 and 2,182,958 gratuitous restricted stocks on 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\$255, NT\$280, NT\$293.5 and NT\$314.5 per share, respectively. The estimated compensation expenses amounted to NT\$3,694,242 thousand in total based on the vesting conditions and will be recognized during the vesting period. As of September 30, 2020, MTK had recognized NT\$3,234,374 thousand as compensation expense and NT\$459,868 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 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%, 33%, for the years ended 2019, 2020, 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 rights, 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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Share-based payment plans of Subsidiaries

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 Corp.

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 319,200 units and 340,000 units as of December 31, 2019 and 2018, respectively. During the nine months period ended September 30, 2020, totally 50,000 units were granted and 16,000 units expired. 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 353,200 units and 343,900 units as of September 30, 2020 and 2019, respectively.

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 was 2,680,000 units as of September 30, 2020.

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

	<u>Compensatory Stock Option Plan</u>
Expected dividend yield (%)	0.00%
Expected volatility (%)	38.13%
Risk free interest rate (%)	0.68%
Expected life (Years)	4.08-4.13 years

The expected life 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 May 8, 2019 and March 5, 2018, the Board of Directors of subsidiary Xiamen Sigmastar Technology Inc. resolved to issue share capital for employees with consideration in a total number of 3,269,004 units and 13,974,405 units, respectively.

New common shares and share capital of Airoha (Cayman) Inc., ILI Technology Holding Corporation and Xiamen Sigmastar Technology Inc. would be issued for their respective restricted stocks plans. During the vesting period, employees may not transfer the restricted stocks to others, and the voting rights of the restricted stocks will be exercised by the custodian organization, etc., on behalf of employees according to the trust contract. If the employees receiving the grant of restricted stocks terminate employment within the vesting period, the restricted stocks during the vesting period are clawed back by the Company.

Total units of restricted stocks issued by subsidiaries were 13,546,795 units (including 4,623,500 units without restrictions) and the total fair value amounted to NT\$136,239 thousand and CNY\$40,096 thousand for the year ended December 31, 2018. The grant dates were from March 2018 to December 2018 and the lock-up periods were 3 to 4 years after the grant dates or continuous services for four years after the date of employment. Total outstanding units were 12,195,886 units (including 4,623,500 units without restrictions) and 12,339,286 units (including 4,623,500 units without restrictions) as of September 30, 2020 and 2019, respectively.

Total units of restricted stocks issued by subsidiaries were 52,101,809 units (including 1,528,953 units without restrictions) and the total fair value amounted to NT\$534,455 thousand and CNY\$44,791 thousand for the year ended December 31, 2019. The grant dates were from January 2019 to December 2019 and the lock-up periods were 3 to 4 years after the grant dates or continuous services for four years after the date of employment. Total outstanding units were 7,181,409 units (including 1,528,953 units without restrictions) and 7,074,009 units (including 1,528,953 units without restrictions) as of September 30, 2020 and 2019, respectively.

Total units of restricted stocks issued by subsidiaries were 1,827,600 units and the total fair value amounted to NT\$154,971 thousand and CNY\$5,391 thousand for the nine months ended September 30, 2020. The grant dates were from January 2020 to June 2020 and the lock-up periods were 3 to 4 years after the grant dates or continuous services for four years after the date of employment. Total outstanding units were 1,544,036 units as of September 30, 2020.

MEDIATEK INC. AND SUBSIDIARIES

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

The compensation cost was recognized under the fair value method and the Black-Scholes Option Pricing model, the Price-Book Ratio, Price-to-Earnings Ratio, Income Approach and Market Approximation Approach were used to estimate the fair value of restricted stocks for employees. Assumptions of the Black-Scholes Option Pricing model used in calculating the fair value are disclosed as follows:

	<u>Restricted stocks plan for employee</u>
Expected dividend yield (%)	0.00%
Expected volatility (%)	32.87%-45.46%
Risk free interest rate (%)	0.33%-0.51%
Expected life (Years)	0.04-0.81 years

The expected life 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.

Share-based compensation expenses recognized for employee services received for the three months and nine months ended September 30, 2020 and 2019 are shown in the following table:

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>September 30</u>		<u>September 30</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Employee stock options	\$ 521	\$ 762	\$ 2,623	\$ 2,336
Restricted stocks for				
employees	417,166	933,062	896,696	1,696,348
Total	<u>\$ 417,687</u>	<u>\$ 933,824</u>	<u>\$ 899,319</u>	<u>\$ 1,698,684</u>

The Company did not modify or cancel any share-based payment plans for the nine months ended September 30, 2020 and 2019.

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

Analysis of revenue from contracts with customers for the three months and nine months ended September 30, 2020 and 2019 is as follows:

A. Disaggregation of revenue

	Three months ended		Nine months ended	
	September 30		September 30	
	2020	2019	2020	2019
Sale of goods	\$ 96,341,655	\$ 66,401,181	\$ 222,626,377	\$ 178,916,683
Services and other operating revenues	933,079	823,173	3,114,385	2,596,669
Total	<u>\$ 97,274,734</u>	<u>\$ 67,224,354</u>	<u>\$ 225,740,762</u>	<u>\$ 181,513,352</u>

Revenue recognition
point:

At a point in time	\$ 96,647,599	\$ 66,429,175	\$ 223,792,686	\$ 179,344,917
Satisfies the performance obligation over time	627,135	795,179	1,948,076	2,168,435
Total	<u>\$ 97,274,734</u>	<u>\$ 67,224,354</u>	<u>\$ 225,740,762</u>	<u>\$ 181,513,352</u>

B. Contract balances

Contract liabilities - current

	September 30, 2020	December 31, 2019	September 30, 2019	January 1, 2019
Sale of goods	\$ 4,977,186	\$ 2,368,770	\$ 2,264,764	\$ 1,265,696
Services and other operating revenues	352,769	324,760	257,014	243,178
Total	<u>\$ 5,329,955</u>	<u>\$ 2,693,530</u>	<u>\$ 2,521,778</u>	<u>\$ 1,508,874</u>

MEDIATEK INC. AND SUBSIDIARIES

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

The significant changes in the Company's balances of contract liabilities for the three months and nine months ended September 30, 2020 and 2019 are as follows:

	Three months ended		Nine months ended	
	September 30		September 30	
	2020	2019	2020	2019
Revenue recognized during the period that was included in the beginning balance	\$ 45,938	\$ 173,248	\$ 1,851,261	\$ 807,256
Increase in receipt in advance during the period (deducting the amount incurred and transferred to revenue during the period)	\$ 3,225,642	\$ (122,879)	\$ 4,615,996	\$ 1,461,551

C. Transaction price allocated to unsatisfied performance obligations

As of September 30, 2020, and 2019, the Company need not disclose unsatisfied performance obligations in sale of goods contracts as the contract terms are all shorter than one year. Besides, the transaction price allocated to unsatisfied performance obligations in service agreements were NT\$2,319,303 thousand and NT\$2,074,537 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.

(22) Expected credit losses (gains)

	Three months ended		Nine months ended	
	September 30		September 30	
	2020	2019	2020	2019
Operating expense- Expected credit losses (gains)				
Trade receivables	\$ (59,930)	\$ (257)	\$ 3,476	\$ (20,426)

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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 of September 30, 2020, December 31, 2019 and September 30, 2019 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:

2020.09.30

	Neither past due	Past due				Total
	(Note)	Within 30 days	31-60 days	61-90 days	After 90 days	
Gross carrying amount	\$ 37,531,372	\$ 385,585	\$ 6,992	\$ 8,721	\$ 98,243	\$ 38,030,913
Loss ratio	0%	0%	0%	0%-10%	20%-100%	
Lifetime expected credit losses	-	-	-	(174)	(38,929)	(39,103)
Carrying amount of trade receivables	\$ 37,531,372	\$ 385,585	\$ 6,992	\$ 8,547	\$ 59,314	\$ 37,991,810

2019.12.31

	Neither past due	Past due				Total
	(Note)	Within 30 days	31-60 days	61-90 days	After 90 days	
Gross carrying amount	\$ 25,411,552	\$ 1,160,329	\$ 118,262	\$ 119,960	\$ 110,442	\$ 26,920,545
Loss ratio	0%	0%	0%	0%-10%	20%-100%	
Lifetime expected credit losses	-	-	-	(11,821)	(79,453)	(91,274)
Carrying amount of trade receivables	\$ 25,411,552	\$ 1,160,329	\$ 118,262	\$ 108,139	\$ 30,989	\$ 26,829,271

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

2019.09.30

	Neither past due	Past due				Total
	(Note)	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

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, 2020 and 2019 are as follows:

	Note receivables	Trade receivables (including related parties)
As of January 1, 2020	\$ -	\$ 91,274
Allowance for the current period	-	3,476
Reclassified to non-current assets held for sale	-	(54,960)
Effect of changes in exchange rate	-	(687)
As of September 30, 2020	\$ -	\$ 39,103
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

(23) Leases

The Company as lessee

The Company leases various property (land and buildings), machinery equipment, transportation equipment and office equipment with lease terms of 1 to 50 years.

MEDIATEK INC. AND SUBSIDIARIES

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

A. Right-of-use asset

	September 30, 2020	December 31, 2019	September 30, 2019
Land	\$ 1,792,783	\$ 1,759,111	\$ 1,772,864
Buildings and facilities	1,066,452	1,047,076	1,134,844
Machinery equipment	17,400	24,209	26,478
Transportation equipment	7,874	26,162	27,541
Office equipment	23,287	34,348	39,294
Total	<u>\$ 2,907,796</u>	<u>\$ 2,890,906</u>	<u>\$ 3,001,021</u>

During the nine months ended September 30, 2020 and 2019, the additions to right-of-use assets of the Company amounted to NT\$434,866 thousand and NT\$659,381 thousand, respectively.

B. Lease liability

	September 30, 2020	December 31, 2019	September 30, 2019
Lease liability-current	\$ 482,872	\$ 499,032	\$ 497,217
Lease liability-noncurrent	2,319,187	2,360,427	2,463,339
Total	<u>\$ 2,802,059</u>	<u>\$ 2,859,459</u>	<u>\$ 2,960,556</u>

Please refer to Note 6. (28) for the interest on lease liability recognized during the three months and nine months ended September 30, 2020 and 2019 and refer to Note 12. (2) C. for the maturity analysis of lease liabilities as of September 30, 2020.

C. Depreciation charge for right-of-use assets

	Three months ended		Nine months ended	
	September 30		September 30	
	2020	2019	2020	2019
Land	\$ 12,482	\$ 12,102	\$ 36,859	\$ 36,375
Buildings and facilities	111,603	102,545	334,716	301,267
Machinery equipment	2,270	757	6,809	757
Transportation equipment	3,565	3,305	10,613	8,544
Office equipment	3,596	2,758	10,948	6,018
Total	<u>\$ 133,516</u>	<u>\$ 121,467</u>	<u>\$ 399,945</u>	<u>\$ 352,961</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. Other lease information

	Three months ended		Nine months ended	
	September 30		September 30	
	2020	2019	2020	2019
The expense relating to short-term leases	\$ 27,954	\$ 32,802	\$ 69,399	\$ 125,298
The expense relating to leases of low-value assets (not including the expense relating to short-term leases of low-value assets)	\$ 1,347	\$ 691	\$ 3,603	\$ 1,419
Income from subleasing right-of-use assets	\$ 4,750	\$ 2,728	\$ 11,132	\$ 8,169

E. Cash outflow relating to leasing activities

During the nine months ended September 30, 2020 and 2019, the Company's total cash outflows for leases amounted to NT\$559,080 thousand and NT\$453,197 thousand, respectively.

(24) Employee benefits, depreciation and amortization expenses are summarized by function as follows:

	Three months ended September 30					
	2020			2019		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Pension	\$ 11,753	\$ 447,614	\$ 459,367	\$ 10,607	\$ 448,536	\$ 459,143
Others	\$ 371,564	\$ 16,608,710	\$ 16,980,274	\$ 296,816	\$ 13,075,819	\$ 13,372,635
Depreciation	\$ 44,352	\$ 1,108,252	\$ 1,152,604	\$ 43,429	\$ 1,005,547	\$ 1,048,976
Amortization	\$ 2,426	\$ 1,567,135	\$ 1,569,561	\$ 1,739	\$ 1,026,998	\$ 1,028,737

MEDIATEK INC. AND SUBSIDIARIES

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

	Nine months ended September 30					
	2020			2019		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Pension	\$ 34,500	\$ 1,236,056	\$ 1,270,556	\$ 31,025	\$ 1,359,370	\$ 1,390,395
Others	\$ 979,028	\$ 40,527,739	\$ 41,506,767	\$ 832,768	\$ 35,126,851	\$ 35,959,619
Depreciation	\$ 131,422	\$ 3,279,751	\$ 3,411,173	\$ 131,395	\$ 3,011,703	\$ 3,143,098
Amortization	\$ 7,583	\$ 3,914,578	\$ 3,922,161	\$ 5,467	\$ 3,057,177	\$ 3,062,644

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.

MTK accrued employees' compensation and remuneration to directors based on a specific rate of profit of the nine months ended September 30, 2020, and 2019. 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\$181,986 thousand and NT\$18,427 thousand for the three months ended September 30, 2020, respectively. The amounts of employees' compensation and remunerations to directors were NT\$357,329 thousand and NT\$36,180 thousand for the nine months ended September 30, 2020, respectively. 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 employees' compensation and remuneration to directors were recognized as salary expense.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

A resolution was approved in a meeting of the Board of Directors held on March 20, 2020 to distribute NT\$317,139 thousand and NT\$32,110 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 2019.

There was no material difference between the actual distribution amounts of employees' compensation and remuneration to directors in 2019 and the amounts charged against earnings in 2018.

(25) Interest income

	Three months ended		Nine months ended	
	September 30		September 30	
	2020	2019	2020	2019
Financial assets measured at amortized cost	\$ 407,493	\$ 859,872	\$ 1,908,590	\$ 2,756,190
Financial assets at fair value through other comprehensive income	28,154	21,280	145,723	136,536
Total	\$ 435,647	\$ 881,152	\$ 2,054,313	\$ 2,892,726

(26) Other income

	Three months ended		Nine months ended	
	September 30		September 30	
	2020	2019	2020	2019
Rental income	\$ 44,007	\$ 38,326	\$ 126,387	\$ 120,138
Dividend income	217,170	181,782	603,729	255,552
Others	15,155	40,181	93,604	206,103
Total	\$ 276,332	\$ 260,289	\$ 823,720	\$ 581,793

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(27) Other gains and losses

	Three months ended		Nine months ended	
	September 30		September 30	
	2020	2019	2020	2019
(Losses) gains on disposal of property, plant and equipment	\$ (7,331)	\$ 1,461	\$ (8,691)	\$ (13,699)
Losses on disposal of intangible assets	-	(22,876)	(36)	(22,936)
Gains (losses) on disposal of investments				
Non-current assets held for sale	-	-	-	813,152
Debt instruments measured at fair value through other comprehensive income	-	-	(30,073)	(16,119)
Foreign exchange (losses) gains	(21,251)	(7,015)	107,980	174,798
Gains on financial assets at fair value through profit or loss	44,723	169,780	134,276	430,552
Gains (losses) on financial liabilities at fair value through profit or loss	59,016	14,492	(5,232)	(10,571)
Others	(7,685)	51,853	200	95,326
Total	\$ 67,472	\$ 207,695	\$ 198,424	\$ 1,450,503

(28) Finance costs

	Three months ended		Nine months ended	
	September 30		September 30	
	2020	2019	2020	2019
Interest expenses on borrowings	\$ 62,958	\$ 341,035	\$ 505,239	\$ 1,232,605
Interest expenses on lease liabilities	15,254	14,010	42,238	40,158
Total	\$ 78,212	\$ 355,045	\$ 547,477	\$ 1,272,763

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(29) Components of other comprehensive income

For the three months ended September 30, 2020 :

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax income	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	(9,712,087)	-	(9,712,087)	941,606	(8,770,481)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	10,477,789	-	10,477,789	-	10,477,789
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	(1,664,508)	-	(1,664,508)	-	(1,664,508)
Unrealized gains (losses) from debt instrument investments measured at fair value through other comprehensive income	(5,832)	-	(5,832)	-	(5,832)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	1,039,736	-	1,039,736	-	1,039,736
Total	\$ 135,098	\$ -	\$ 135,098	\$ 941,606	\$ 1,076,704

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, 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

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

For the nine months ended September 30, 2020 :

	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	(3,662,376)	-	(3,662,376)	176,398	(3,485,978)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	20,090,809	-	20,090,809	-	20,090,809
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	(4,600,984)	-	(4,600,984)	-	(4,600,984)
Unrealized gains (losses) from debt instrument investments measured at fair value through other comprehensive income	(12,108)	30,073	17,965	-	17,965
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	818,001	-	818,001	-	818,001
Total	\$ 12,633,342	\$ 30,073	\$ 12,663,415	\$ 176,398	\$ 12,839,813

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

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 and NT\$(30,073) thousand for the three months and nine months ended September 30, 2020, respectively, which were recognized in other comprehensive income, were reclassified to profit or loss.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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 and NT\$(16,119) thousand for the three months and nine months ended September 30, 2019, respectively, which were recognized in other comprehensive income, were reclassified to profit or loss.

(30) Income Tax

The major components of income tax expense are as follows:

	<u>Three months ended September 30</u>		<u>Nine months ended September 30</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Current income tax expense:				
Current income tax charge	\$ 2,435,463	\$ 916,937	\$ 4,480,119	\$ 2,728,250
Deferred tax (income) expense:				
Deferred tax expense (income) relating to origination and reversal of temporary differences	(522,351)	51,255	(232,806)	876,581
Deferred tax expense (income) relating to origination and reversal of tax loss and tax credit	26,469	36,007	33,951	72,223
Deferred tax expense (income) arising from write-down or reversal of deferred tax asset	128,961	(15,865)	138,115	(72,669)
Tax expense (income) recognized in the periods for previously unrecognized tax credit or temporary difference of prior periods	30,001	-	(222,949)	(513,066)
Others	(32,998)	56,210	13,447	59,664
Income tax expense	<u>\$ 2,065,545</u>	<u>\$ 1,044,544</u>	<u>\$ 4,209,877</u>	<u>\$ 3,150,983</u>

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Income tax recognized in other comprehensive income

	<u>Three months ended September 30</u>		<u>Nine months ended September 30</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Deferred tax (income) expense:				
Unrealized gains from equity instrument investments measured at fair value through other comprehensive income	\$ (941,606)	\$ 1,539,252	\$ (176,398)	\$ 3,255,835
Income tax relating to components of other comprehensive income	\$ (941,606)	\$ 1,539,252	\$ (176,398)	\$ 3,255,835

Income tax charged directly to equity

	<u>Three months ended September 30</u>		<u>Nine months ended September 30</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Current income tax expense:				
Realized gains from equity instrument investments measured at fair value through other comprehensive income	\$ 360,174	\$ 338,837	\$ 1,267,768	\$ 653,708

The assessment of income tax returns

As of September 30, 2020, the assessments of the income tax returns of MTK and its material subsidiaries are as follows:

	<u>The assessment of income tax returns</u>
MTK	Assessed and approved up to 2017
Subsidiary- Hsu-Ta Investment Corp.	Assessed and approved up to 2018
Subsidiary- Hsu-Si Investment Corp.	Assessed and approved up to 2018
Subsidiary- Richtek Technology Corp.	Assessed and approved up to 2018

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(31) Earnings per share

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

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

	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
A. Basic earnings per share				
Profit attributable to ordinary equity owners of the parent (in thousand NT\$)	\$ 13,251,148	\$ 6,870,577	\$ 26,170,393	\$ 16,706,399
Weighted average number of ordinary shares outstanding for basic earnings per share (share)	1,573,343,165	1,567,598,598	1,572,073,331	1,566,764,810
Basic earnings per share (NT\$)	\$ 8.42	\$ 4.38	\$ 16.65	\$ 10.66
B. Diluted earnings per share				
Profit attributable to ordinary equity owners of the parent (in thousand NT\$)	\$ 13,251,148	\$ 6,870,577	\$ 26,170,393	\$ 16,706,399
Weighted average number of ordinary shares outstanding for basic earnings per share (share)	1,573,343,165	1,567,598,598	1,572,073,331	1,566,764,810
Effect of dilution:				
Employees' compensation-stock (share)	588,680	628,707	922,395	904,345
Employee stock options (share)	1,134,974	439,973	1,558,673	294,311
Restricted stocks for employees (share)	7,638,855	9,999,430	8,586,047	11,480,403
Weighted average number of ordinary shares outstanding after dilution (share)	1,582,705,674	1,578,666,708	1,583,140,446	1,579,443,869
Diluted earnings per share (NT\$)	\$ 8.37	\$ 4.35	\$ 16.53	\$ 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)

(32) Non-current assets held for sale

On July 31, 2020, the Company's Board of Directors approved to sell the shares of ILI Technology Holding Corporation to Midus Investments Limited, in the price of approximately US\$138 million dollars. The Company reclassified ILI Technology Holding Corporation's assets and liabilities to non-current assets held for sale as a disposal group on September 30, 2020. Assets and liabilities reclassified to non-current assets held for sale as a disposal group mainly consisted of:

	<u>As of September 30, 2020</u>
Non-current assets held for sale	
Cash and cash equivalents	\$ 1,315,326
Financial assets at fair value through profit or loss-current	181
Trade receivables, net	2,644,606
Other receivables	62,675
Current tax assets	50,955
Inventories, net	2,277,911
Prepayments	68,391
Other current assets	28,359
Property, plant and equipment (Note)	723,868
Right-of-use assets	37,264
Intangible assets	144,415
Deferred tax assets	84,149
Refundable deposits	117,510
	<u>7,555,610</u>
Liabilities directly associated with non-current assets held for sale	
Short-term borrowings	(626,209)
Held for trading financial liabilities-current	(381)
Contract liabilities-current	(159,778)
Trade payables	(872,329)
Other payables	(1,538,323)
Other payables to related parties	(5,251)
Current tax liabilities	(29,961)
Lease liability-current	(13,744)
Other current liabilities	(5,285)
Current portion of long-term liabilities	(36,850)
Long-term borrowings (Note)	(147,400)
Deferred tax liabilities	(9,248)
Lease liabilities-noncurrent	(22,619)
(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)	<u>As of September 30, 2020</u>
Net defined benefit liabilities-noncurrent	(22,422)
Deposits received	(1,239)
Non-current liabilities-others	(9,352)
	<u>(3,500,391)</u>
Net carrying amount of the disposal group	<u>\$ 4,055,219</u>

Note: Property, plant and equipment which were pledged as collateral for the long-term borrowings amounted to NT\$317,559 thousand.

(33) 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 Xiamen Sigmastar Technology Inc. in September 2020 and its ownership was reduced to 50%. In addition, Xiamen Sigmastar Technology Inc. increased capital by cash in September 2019 and the first three quarters of 2020. The Company did not subscribe new share proportionate to its original ownership interest. As the control over the subsidiary remained, the change of the ownership interest was accounted for as an equity transaction.

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% and 10.18% of voting shares of Nephos (Hefei) Co., Ltd. in May and November 2019, respectively, and its ownership rose to 100%. 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 100%.

The Company purchased additional 33% of voting shares of RollTech Technology Co., Ltd. in December 2019 and its ownership rose to 100%. As the control over the subsidiary 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 increase (decrease) in the non-controlling interest were NT\$1,827,062 thousand and NT\$(551,786) thousand for the nine months ended September 30, 2020 and 2019, respectively, and have been recorded in equity.

MEDIATEK INC. AND SUBSIDIARIES

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

7. Related Party Transactions

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

Name and nature of relationship of the related parties

<u>Name of the related parties</u>	<u>Nature of relationship of the related parties</u>
E-Vehicle Semiconductor Technology Co., Ltd.	Associate
Intelligo Technology Inc.	Associate
Cyberon Corp.	Associate
Amobile Intelligent Corp. Limited	Associate
PuTian Joint Micro Technology Inc.	Associate
King Yuan Electronics Co., Ltd. and its subsidiaries	Substantive related party
Andes Technology Corp.	Substantive related party
Richtek Education Foundation	Substantive related party

Significant transactions with the related parties

(1) Sales

	Three months ended		Nine months ended	
	September 30		September 30	
	2020	2019	2020	2019
Associates				
Intelligo Technology Inc.	\$ 1,526	\$ -	\$ 4,240	\$ 5,985
E-Vehicle Semiconductor Technology Co., Ltd.	-	-	-	1,190
Amobile Intelligent Corp. Limited	4,970	-	9,665	-
PuTian Joint Micro Technology Inc.	-	-	420	-
Total	\$ 6,496	\$ -	\$ 14,325	\$ 7,175

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.

MEDIATEK INC. AND SUBSIDIARIES

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

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

	Three months ended		Nine months ended	
	September 30		September 30	
	2020	2019	2020	2019
Other related parties				
King Yuan Electronics Co., Ltd. and its subsidiaries	\$ 1,514,300	\$ 942,209	\$ 3,977,170	\$ 2,390,692

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		Nine months ended	
	September 30		September 30	
	2020	2019	2020	2019
Associate				
Cyberon Corp.	\$ 7,641	\$ -	\$ 26,785	\$ -
Other related parties				
Andes Technology Corp.	11,257	5,514	24,378	18,983
Total	\$ 18,898	\$ 5,514	\$ 51,163	\$ 18,983

(4) Donations Expenses

	Three months ended		Nine months ended	
	September 30		September 30	
	2020	2019	2020	2019
Other related parties				
Richtek Education Foundation	\$ -	\$ -	\$ 6,000	\$ -

(5) Trade receivables from related parties

	September 30,	December 31,	September 30,
	2020	2019	2019
Associates			
Intelligo Technology Inc.	\$ 811	\$ -	\$ -
E-Vehicle Semiconductor Technology Co., Ltd.	-	5,000	5,000
Total	\$ 811	\$ 5,000	\$ 5,000

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(6) Trade payables to related parties

	September 30, 2020	December 31, 2019	September 30, 2019
Other related parties			
King Yuan Electronics Co., Ltd. and its subsidiaries	\$ 1,502,867	\$ 906,224	\$ 943,588

(7) Other payables to related parties

	September 30, 2020	December 31, 2019	September 30, 2019
Associate			
Cyberon Corp.	\$ 16,242	\$ 16,312	\$ -
Other related parties			
Andes Technology Corp.	2,644	4,052	2,948
Total	\$ 18,886	\$ 20,364	\$ 2,948

(8) Prepayments

	September 30, 2020	December 31, 2019	September 30, 2019
Other related parties			
Andes Technology Corp.	\$ -	\$ 254	\$ 6,990

(9) Non-current assets held for sale

a. Prepayments

	September 30, 2020	December 31, 2019	September 30, 2019
Other related parties			
Andes Technology Corp.	\$ 248	\$ -	\$ -

b. Others

The patents payment of NT\$7,406 thousand to Andes Technology Corp. was recorded as intangible assets.

MEDIATEK INC. AND SUBSIDIARIES

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

(10) Liabilities directly associated with non-current assets held for sale

	September 30, 2020	December 31, 2019	September 30, 2019
Other related parties			
Andes Technology Corp.	\$ 5,251	\$ -	\$ -

(11) Key management personnel compensation

	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Short-term employee benefits (Note)	\$ 320,915	\$ 246,342	\$ 843,962	\$ 643,874
Share-based payment	40,554	64,242	127,102	218,685
Post-employment benefits	1,234	717	3,149	2,453
Total	<u>\$ 362,703</u>	<u>\$ 311,301</u>	<u>\$ 974,213</u>	<u>\$ 865,012</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, 2020	December 31, 2019	September 30, 2019	
Financial assets measured at amortized cost-noncurrent	\$ 9,873	\$ 9,988	\$ 9,917	Lease execution deposits
Financial assets measured at amortized cost-noncurrent	99	105	110	Lease execution deposits
Financial assets measured at amortized cost-noncurrent	40,049	24,375	24,365	Customs clearance deposits
Financial assets measured at amortized cost-noncurrent	24,000	24,000	24,000	Customs clearance deposits
Financial assets measured at amortized cost-noncurrent	9,180	9,180	9,180	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, 2020	December 31, 2019	September 30, 2019	
Financial assets measured at amortized cost-noncurrent	\$ 1,523	\$ 1,519	\$ 1,516	Customs clearance deposits
Financial assets measured at amortized cost-noncurrent	-	-	1,000	Customs clearance deposits
Financial assets measured at amortized cost-noncurrent	2,011	-	675	Customs clearance deposits
Financial assets measured at amortized cost-noncurrent	611	650	-	Customs clearance deposits
Financial assets measured at amortized cost-noncurrent	23,130	23,017	23,017	Land lease guarantee
Financial assets measured at amortized cost-noncurrent	7,125	7,125	7,125	Land lease guarantee
Financial assets measured at amortized cost-noncurrent	-	101,132	101,132	Performance bond
Financial assets measured at amortized cost-noncurrent	-	115,915	89,592	Performance bond
Property, plant and equipment - buildings	-	223,526	228,457	Long-term borrowing
Property, plant and equipment - buildings and land	-	321,363	322,631	Long-term borrowing
Investment property-buildings and facilities	-	157,939	156,806	Long-term borrowing
Total	\$ 117,601	\$ 1,019,834	\$ 999,523	

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

Legal claim contingency

- A. Vantage Micro LLC (“VM”) filed a complaint in the United States District Court for the Western District of Texas against MTK and subsidiary MediaTek USA Inc. on October 8, 2019, alleging infringement of United States Patent Nos. 6,678,838, 7,414,606, and 9,959,593. The court dismissed the claims against MTK and subsidiary MediaTek USA Inc. with prejudice pursuant to the parties’ joint stipulation on April 17, 2020.
- B. M-Red Inc. (“M-Red”) filed a complaint in the United States District Court for the Eastern District of Texas against MTK on April 29, 2019, alleging infringement of United States Patent Nos. 6,853,259, 7,068,557, and 7,209,401. The court dismissed the claims against MTK and subsidiary MediaTek USA Inc. with prejudice pursuant to the parties’ joint stipulation on September 3, 2020.
- C. Nippon Telegraph and Telephone Corporation (“NTT”) and Essential WiFi, LLC (“EWF”) filed complaints in the United States District Court for the Western District of Texas against MTK and subsidiary MediaTek USA Inc. on March 25, 2020, alleging infringement of United States Patent Nos. 7,280,551, 7,545,781, 7,400,616, and 7,242,720. The operations of MTK and subsidiary MediaTek USA Inc. will not be affected by this case.
- D. Computer Circuit Operations LLC (“CCO”) filed complaints in the United States District Court for the Western District of Texas against MTK and subsidiary MediaTek USA Inc. on May 21, 2020, alleging infringement of United States Patent Nos. 6,480,021, 6,820,234, 7,107,386, 7,278,069, and 7,426,603. The operations of MTK and subsidiary MediaTek USA Inc. will not be affected by this case.
- E. CDN Innovations, LLC (“CDN”) filed complaints in the United States District Court for the Western District of Texas against MTK and subsidiary MediaTek USA Inc. on May 29, 2020, alleging infringement of United States Patent Nos. 7,006,844, 7,860,462, 7,293,291, and 7,565,699. The court dismissed the claims against MTK and subsidiary MediaTek USA Inc. with prejudice pursuant to CDN’s voluntary dismissal on September 24, 2020.

MEDIATEK INC. AND SUBSIDIARIES

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

- F. Divx, LLC (“Divx”) filed a complaint in the United States District Court for the District of Delaware against MTK and subsidiaries MediaTek USA Inc. and MStar Semiconductor Inc. on September 9, 2020, alleging infringement of United States Patent No. 8,832,297, 10,212,486, 10,412,141, and 10,484,749. The operations of MTK and subsidiaries MediaTek USA Inc. and MStar Semiconductor Inc., will not be materially affected by this case.

Divx filed a complaint with the U.S. International Trade Commission against MTK and subsidiaries MediaTek USA Inc. and MStar Semiconductor Inc. on September 10, 2020 alleging infringement of the same patents listed above. The operations of MTK and subsidiaries MediaTek USA Inc. and MStar Semiconductor Inc. will not be materially affected by this case.

- G. Koninklijke Philips N.V., and Philips North America LLC, (“Philips”) filed a complaint in the United States District Court for the District of Delaware against MTK and subsidiary MediaTek USA Inc. on September 17, 2020, alleging infringement of United States Patent No. 9,590,977 and 10,298,564. The operations of MTK and subsidiary MediaTek USA Inc. will not be materially affected by this case.

Philips filed a complaint with the U.S. International Trade Commission against MTK and subsidiary MediaTek USA Inc. on September 18, 2020 alleging infringement of the same patents listed above. The operations of MTK and subsidiary MediaTek USA Inc. will not be materially affected by this case.

- H. Liberty Patents, LLC, (“Liberty”) filed a complaint in the United States District Court for the Western District of Texas against MTK and subsidiary MediaTek USA Inc. on October 16, 2020, alleging infringement of U.S. Patent No. 6,535,959. The operations of MTK and subsidiary MediaTek USA Inc. will not be materially affected by this case.

The Company will handle these cases carefully.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

10. Losses due to Major Disasters

None

11. Significant Subsequent Events

None

12. Others

(1) Financial instruments

A. Categories of financial instruments

Financial assets

	September 30, 2020	December 31, 2019	September 30, 2019
Financial assets at fair value through profit or loss:			
Held for trading financial assets	\$ 19,857	\$ 4,621	\$ 13,806
Mandatorily measured at fair value through profit or loss (Note 1)	17,921,670	15,679,314	17,239,583
Subtotal	17,941,527	15,683,935	17,253,389
Financial assets at fair value through other comprehensive income	52,374,984	69,249,681	73,111,211
Financial assets measured at amortized cost (Note 2)	218,357,946	211,047,351	191,156,915
Total	<u>\$ 288,674,457</u>	<u>\$ 295,980,967</u>	<u>\$ 281,521,515</u>

Financial liabilities

Financial liabilities at fair value through profit or loss:			
Held for trading financial liabilities	\$ 5,232	\$ 9,085	\$ 10,571
Financial liabilities at amortized cost:			
Short-term borrowings	30,625,746	57,254,570	54,701,004
Trade payables (including related parties)	29,288,228	22,313,552	23,101,445
Other payables (including related parties)	32,609,137	27,583,302	27,158,246
Long-term payables (including current portion)	7,379,116	2,063,198	1,466,233
Long-term borrowings (including current portion)	-	202,675	234,910
Lease liabilities	2,802,059	2,859,459	2,960,556
Subtotal	102,704,286	112,276,756	109,622,394
Total	<u>\$ 102,709,518</u>	<u>\$ 112,285,841</u>	<u>\$ 109,632,965</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, 2020, December 31, 2019 and September 30, 2019 which were in the amount of NT\$4,818,617 thousand, NT\$2,472,998 thousand and NT\$3,587,920 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, 2020, December 31, 2019 and September 30, 2019 which were in the amount of NT\$4,818,617 thousand, NT\$2,472,998 thousand and NT\$3,587,920 thousand, respectively. Please refer to Note 6. (5) for further explanation.) and other receivables.

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, 2020

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Assets measured at fair value:</u>				
Financial assets at fair value				
through profit or loss				
Bonds	\$ -	\$ -	\$ 616,709	\$ 616,709
Linked deposits	372,538	-	4,286,105	4,658,643
Stocks	185,850	-	12,325	198,175
Funds	1,076,384	-	5,758,239	6,834,623
Trust funds	794,903	-	-	794,903
Forward exchange contracts	-	19,857	-	19,857
Financial assets at fair value				
through other				
comprehensive income				
Equity instruments				
measured at fair value				
through other				
comprehensive income	30,455,791	-	20,327,907	50,783,698
Debt instruments measured				
at fair value through other				
comprehensive income	903,389	-	687,897	1,591,286
Total	<u>\$ 33,788,855</u>	<u>\$ 19,857</u>	<u>\$ 31,689,182</u>	<u>\$ 65,497,894</u>

Liabilities measured at fair value:

Financial liabilities at fair

value through profit or loss

Forward exchange contracts	\$ -	\$ 5,232	\$ -	\$ 5,232
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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, 2019

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Assets measured at fair value:</u>				
Financial assets at fair value				
through profit or loss				
Bonds	\$ -	\$ -	\$ 744,518	\$ 744,518
Linked deposits	823,000	-	4,794,048	5,617,048
Stocks	269,394	-	107,269	376,663
Funds	782,571	-	5,108,668	5,891,239
Trust funds	576,848	-	-	576,848
Forward exchange contracts	-	4,621	-	4,621
Financial assets at fair value				
through other				
comprehensive income				
Equity instruments				
measured at fair value				
through other				
comprehensive income	48,059,600	-	19,324,707	67,384,307
Debt instruments measured				
at fair value through other				
comprehensive income	<u>1,136,012</u>	<u>-</u>	<u>729,362</u>	<u>1,865,374</u>
Total	<u>\$ 51,647,425</u>	<u>\$ 4,621</u>	<u>\$ 30,808,572</u>	<u>\$ 82,460,618</u>

Liabilities measured at fair value:

Financial liabilities at fair

value through profit or loss

Forward exchange contracts	\$ -	\$ 9,085	\$ -	\$ 9,085
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MEDIATEK INC. AND SUBSIDIARIES

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

As of September 30, 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	\$ 56,178,089	\$ 13,806	\$ 30,584,785	\$ 86,776,680

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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For the nine months ended September 30, 2020 and 2019, amounts transferred from level 2 of the fair value hierarchy to level 1 due to the release of the stock transfer restrictions were NT\$0 and NT\$7,958,351 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				Total
	through profit or loss				comprehensive income				
	Stocks	Bonds	Funds	Link deposits	Bonds	Capital	Stocks		
As of January 1, 2020	\$ 107,269	\$ 744,518	\$ 5,108,668	\$ 4,794,048	\$ 729,362	\$ 11,979,752	\$ 7,344,955	\$ 30,808,572	
Amount recognized in profit or loss	(93,631)	(44,776)	134,032	(12,039)	326	-	-	(16,088)	
Amount recognized in OCI	-	-	-	-	(6,185)	3,946,069	(2,618,810)	1,321,074	
Amount recognized in OCI- exchange differences	(1,313)	(23,140)	(46,106)	(143,166)	(13,665)	(383,078)	(158,197)	(768,665)	
Acquisitions	-	-	7,484,630	294,756	-	1,317,193	162,690	9,259,269	
Settlements	-	(59,893)	(6,922,985)	(647,494)	(21,941)	(1,173,329)	(89,338)	(8,914,980)	
As of September 30, 2020	\$ 12,325	\$ 616,709	\$ 5,758,239	\$ 4,286,105	\$ 687,897	\$ 15,686,607	\$ 4,641,300	\$ 31,689,182	

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, 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

Total (losses) gains related to assets recognized for the nine months ended September 30, 2020 and 2019 amounted to NT\$(141,938) thousand and NT\$52,675 thousand, respectively.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

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

The Company's Finance Department is responsible for validating the fair value measurements and updating the latest quoted price of trading partners 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, 2020

	<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	\$ -	\$ -	\$ 1,856,296	\$ 1,856,296

As of December 31, 2019

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets not measured at fair value but for which the fair value is disclosed:				
Investment property	\$ -	\$ -	\$ 1,649,821	\$ 1,649,821

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	\$ -	\$ -	\$ 1,645,559	\$ 1,645,559

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

D. Derivative financial instruments

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

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

Forward exchange contracts	Currency	Contract amount ('000)		Maturity
As of September 30, 2020	CNY to USD	Sell USD	4,500	October 2020
As of September 30, 2020	CNY to USD	Buy USD	104,553	October 2020
As of September 30, 2020	TWD to USD	Sell USD	53,000	October 2020
As of September 30, 2020	TWD to USD	Buy USD	40,000	October 2020
As of September 30, 2020	CNY to USD	Sell USD	5,000	November 2020
As of September 30, 2020	TWD to USD	Sell USD	30,000	November 2020
As of September 30, 2020	CNY to USD	Sell USD	6,000	December 2020
As of September 30, 2020	CNY to USD	Sell USD	2,000	January 2021
As of December 31, 2019	CNY to USD	Buy USD	24,954	January 2020
As of December 31, 2019	TWD to USD	Sell USD	32,000	January 2020
As of December 31, 2019	CNY to USD	Buy USD	12,835	February 2020
As of December 31, 2019	CNY to USD	Sell USD	2,000	February 2020
As of December 31, 2019	CNY to USD	Buy USD	6,999	March 2020
As of December 31, 2019	CNY to USD	Sell USD	2,000	March 2020
As of December 31, 2019	CNY to USD	Sell USD	2,000	May 2020
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

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.

MEDIATEK INC. AND SUBSIDIARIES

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

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

A. Market risk

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

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

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 revenues or expenses 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:

MEDIATEK INC. AND SUBSIDIARIES

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

When NTD appreciates or depreciates against USD by 0.1%, the profit for the nine months ended September 30, 2020 and 2019 decreases/increases by NT\$1,793 thousand and NT\$1,004 thousand, while equity decreases/increases by NT\$54,648 thousand and NT\$125,992 thousand, respectively.

When NTD appreciates or depreciates against CNY by 0.1%, the profit for the nine months ended September 30, 2020 and 2019 decreases/increases by NT\$2 thousand and NT\$0 thousand, while equity decreases/increases by NT\$16,118 thousand and NT\$11,843 thousand, respectively.

b. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's 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 rates. 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, 2020 and 2019 to increase/decrease by NT\$4,431 thousand and NT\$4,223 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)

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, 2020 and 2019 to increase/decrease by NT\$1,859 thousand and NT\$2,657 thousand, respectively.

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, 2020 and 2019 to increase/decrease by NT\$304,558 thousand and NT\$519,573 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.

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 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, 2020, December 31, 2019, and September 30, 2019, receivables from top ten customers represented 52.77%, 42.74%, and 36.54% of the total trade receivables of the Company, respectively. The credit concentration risk of other accounts receivables was insignificant.

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

Credit risk of credit-linked deposits, interest rate-linked deposits, exchange-linked 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:

MEDIATEK INC. AND SUBSIDIARIES

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

Level of credit risk	Indicator	Measurement method for expected credit losses	Carrying amount		
			September 30, 2020	December 31, 2019	September 30, 2019
Low credit risk	Credit risk measure belongs to IG category	12-month expected credit losses	\$ 9,664,516	\$ 4,478,198	\$ 2,332,428
	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	\$ 1,359,132	\$ 216,633	\$ 1,196,177
	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	\$ 38,035,740	\$ 26,928,356	\$ 30,537,632

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

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.

MEDIATEK INC. AND SUBSIDIARIES

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

	<u>Less than 1 year</u>	<u>1 to 5 years</u>	<u>Later than 5 years</u>	<u>Total</u>
<u>As of September 30, 2020</u>				
Short-term borrowings	\$ 30,640,258	\$ -	\$ -	\$ 30,640,258
Trade payables (including related parties)	29,288,228	-	-	29,288,228
Other payables (including related parties)	32,600,791	-	-	32,600,791
Lease liabilities	516,646	970,009	1,920,690	3,407,345
Long-term payables	3,661,499	3,717,617	-	7,379,116
Total	<u>\$ 96,707,422</u>	<u>\$ 4,687,626</u>	<u>\$ 1,920,690</u>	<u>\$ 103,315,738</u>
<u>As of December 31, 2019</u>				
Short-term borrowings	\$ 57,354,161	\$ -	\$ -	\$ 57,354,161
Trade payables (including related parties)	22,313,552	-	-	22,313,552
Other payables (including related parties)	27,529,078	-	-	27,529,078
Lease liabilities	499,032	857,737	1,502,690	2,859,459
Long-term borrowings	39,472	152,731	18,511	210,714
Long-term payables	983,591	1,079,607	-	2,063,198
Total	<u>\$ 108,718,886</u>	<u>\$ 2,090,075</u>	<u>\$ 1,521,201</u>	<u>\$ 112,330,162</u>
<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	<u>\$ 106,450,295</u>	<u>\$ 1,736,282</u>	<u>\$ 1,548,292</u>	<u>\$ 109,734,869</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, 2020</u>			
Gross settlement			
Forward exchange contracts			
Inflow	\$ 769,787	\$ -	\$ 769,787
Outflow	(773,177)	-	(773,177)
Net	<u>\$ (3,390)</u>	<u>\$ -</u>	<u>\$ (3,390)</u>
Net settlement			
Forward exchange contracts	(1,881)	-	(1,881)
Total	<u>\$ (5,271)</u>	<u>\$ -</u>	<u>\$ (5,271)</u>

As of December 31, 2019

Gross settlement			
Forward exchange contracts			
Inflow	\$ 1,890,629	\$ -	\$ 1,890,629
Outflow	(1,900,140)	-	(1,900,140)
Net	<u>\$ (9,511)</u>	<u>\$ -</u>	<u>\$ (9,511)</u>

As of September 30, 2019

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>

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 the nine months ended September 30, 2020:

	Short-term borrowings	Long-term borrowings	Lease liabilities	Deposits received	Total liabilities from financing activities
As of January 1, 2020	\$ 57,254,570	\$ 202,675	\$ 2,859,459	\$ 565,773	\$ 60,882,477
Cash flows	(25,836,896)	(18,425)	(443,840)	(123,832)	(26,422,993)
Non-cash movement	(626,209)	(184,250)	386,440	(1,239)	(425,258)
Foreign exchange movement	(165,719)	-	-	-	(165,719)
As of September 30, 2020	<u>\$ 30,625,746</u>	<u>\$ -</u>	<u>\$ 2,802,059</u>	<u>\$ 440,702</u>	<u>\$ 33,868,507</u>

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

	Short-term borrowings	Long-term borrowings	Lease Liabilities	Deposits received	Total liabilities 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>

Please refer to Note 6. (32) for more details on liabilities reclassified to liabilities directly associated with non-current assets held for sale.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(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, 2020		
	Foreign Currency (thousand)	Exchange rate	NT\$ (thousand)
<u>Financial assets</u>			
Monetary item:			
USD	\$ 2,495,575	29.126	\$ 320,642,837
CNY	\$ 4,228	4.284	\$ 18,595
Non-monetary item:			
USD	\$ 1,675,361	29.126	\$ 48,796,560
CNY	\$ 3,759,001	4.284	\$ 16,103,072
<u>Financial liabilities</u>			
Monetary item:			
USD	\$ 2,601,227	29.126	\$ 75,765,641
CNY	\$ 395	4.284	\$ 1,692
	December 31, 2019		
	Foreign Currency (thousand)	Exchange rate	NT\$ (thousand)
<u>Financial assets</u>			
Monetary item:			
USD	\$ 4,821,463	30.106	\$ 145,154,961
CNY	\$ 1,826	4.324	\$ 7,894
Non-monetary item:			
USD	\$ 2,239,603	30.106	\$ 67,425,479
CNY	\$ 2,650,963	4.324	\$ 11,461,675
<u>Financial liabilities</u>			
Monetary item:			
USD	\$ 2,895,330	30.106	\$ 87,166,810
CNY	\$ 2,752	4.324	\$ 11,897

(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)

	September 30, 2019		
	Foreign Currency (thousand)	Exchange rate	NT\$ (thousand)
<u>Financial assets</u>			
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
<u>Financial liabilities</u>			
Monetary item:			
USD	\$ 2,717,355	31.042	\$ 84,352,135
CNY	\$ 3,546	4.526	\$ 15,708

The above information is disclosed based on the carrying amounts of foreign currencies (after conversion to the Company's functional currency.)

Functional currencies of entities of the Company are varied. Accordingly, the Company is not able to disclose the information of exchange gains and losses of monetary financial assets and liabilities by each significant assets and liabilities denominated in foreign currencies. The foreign exchange gains were NT\$21,251 thousand and NT\$7,015 thousand for the three months ended September 30, 2020 and 2019, respectively. The foreign exchange gains were NT\$107,980 thousand and NT\$174,798 thousand for the nine months ended September 30, 2020 and 2019, 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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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.