

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

**MEDIATEK INC. AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**WITH**

**REPORT OF INDEPENDENT ACCOUNTANTS**

**FOR THE THREE MONTHS ENDED**

**MARCH 31, 2017 AND 2016**

English Translation of a Report Originally Issued in Chinese

Review Report of Independent Accountants

To the Board of Directors and Shareholders  
of MediaTek Inc.

We have reviewed the accompanying consolidated balance sheets of MediaTek Inc. and its subsidiaries as of March 31, 2017 and March 31, 2016 and the related consolidated statements of comprehensive income, changes in equity, and cash flows for the three months then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report based on our reviews.

We conducted our reviews in accordance with the Statements of Auditing Standards NO. 36, "Review of Financial Statements" of the Republic of China. A review is limited primarily to applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with the requirements of Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, "Interim Financial Reporting", endorsed and became effective by Financial Supervisory Commission of the Republic of China.

/s/Kuo, Shao-Pin

/s/Fuh, Wen-Fun

Ernst & Young  
CERTIFIED PUBLIC ACCOUNTANTS  
April 28, 2017  
Taipei, Taiwan  
Republic of China

Notice to Readers

The reader is advised that these financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

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

English Translation of Financial Statements Originally Issued in Chinese

**MEDIATEK INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

**As of March 31, 2017, December 31, 2016, and March 31, 2016**

(March 31, 2017 and 2016 are unaudited)

(Amounts in thousands of New Taiwan Dollars)

ASSETS	Notes	March 31, 2017	%	December 31, 2016	%	March 31, 2016	%
<b>Current assets</b>							
Cash and cash equivalents	6(1)	\$ 139,149,253	35	\$ 140,560,858	38	\$ 155,962,828	44
Financial assets at fair value through profit or loss-current	6(2)	532,790	-	1,970,502	1	5,617,366	1
Available-for-sale financial assets-current	6(3)	11,160,068	3	9,428,674	3	8,574,223	2
Held-to-maturity financial assets-current	6(4)	-	-	-	-	1,253,951	-
Debt instrument investments for which no active market exists-current	6(6), 8	1,323,333	-	1,505,492	-	1,313,535	-
Notes receivables, net		1,606	-	2,811	-	-	-
Trade receivables, net	6(7)	18,286,073	5	20,477,995	6	15,598,028	4
Other receivables	6(7), 7	18,064,934	5	5,497,925	1	2,714,131	1
Current tax assets		1,197,831	-	357,517	-	393,449	-
Inventories, net	6(8)	37,620,820	10	33,922,914	9	27,027,099	8
Prepayments	6(9)	1,640,356	-	1,505,221	-	2,346,221	1
Non-current assets held for sale	6(31)	-	-	3,633,726	1	-	-
Other current assets		2,553,064	1	1,413,935	-	1,796,495	1
Total current assets		231,530,128	59	220,277,570	59	222,597,326	62
<b>Non-current assets</b>							
Financial assets at fair value through profit or loss-noncurrent	6(2)	5,028,162	1	4,997,093	2	3,703,825	1
Available-for-sale financial assets-noncurrent	6(3)	21,268,547	6	18,914,717	5	8,211,740	2
Held-to-maturity financial assets-noncurrent	6(4)	-	-	-	-	260,179	-
Financial assets measured at cost-noncurrent	6(5)	8,456,921	2	6,895,187	2	5,152,552	2
Debt instrument investments for which no active market exists-noncurrent	6(6), 8	271,791	-	257,928	-	266,377	-
Investments accounted for using the equity method	6(10)	5,873,394	2	5,905,795	2	2,838,501	1
Property, plant and equipment	6(11), 6(31), 8	35,754,240	9	36,857,740	10	35,530,834	10
Investment property	6(12)	785,902	-	651,408	-	286,340	-
Intangible assets	6(13), 6(14), 6(31), 7	78,105,919	20	72,014,554	19	74,586,677	21
Deferred tax assets	4, 6(28)	3,397,093	1	3,265,695	1	3,133,497	1
Refundable deposits		310,114	-	326,152	-	290,334	-
Long-term lease receivables	6(15)	-	-	211,137	-	-	-
Net defined benefit assets-noncurrent	6(19)	2,066	-	2,070	-	-	-
Long-term prepaid rent		120,451	-	134,726	-	146,957	-
Total non-current assets		159,374,600	41	150,434,202	41	134,407,813	38
<b>Total assets</b>		<u>\$ 390,904,728</u>	<u>100</u>	<u>\$ 370,711,772</u>	<u>100</u>	<u>\$ 357,005,139</u>	<u>100</u>

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

English Translation of Financial Statements Originally Issued in Chinese

**MEDIATEK INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

**As of March 31, 2017, December 31, 2016, and March 31, 2016**

(March 31, 2017 and 2016 are unaudited)

(Amounts in thousands of New Taiwan Dollars)

<b>LIABILITIES AND EQUITY</b>	<b>Notes</b>	<b>March 31, 2017</b>	<b>%</b>	<b>December 31, 2016</b>	<b>%</b>	<b>March 31, 2016</b>	<b>%</b>
<b>Current liabilities</b>							
Short-term borrowings	6(16)	\$ 60,828,192	16	\$ 54,523,984	15	\$ 48,025,807	13
Financial liabilities at fair value through profit or loss-current	6(2)	42,683	-	45,098	-	-	-
Trade payables		30,559,141	8	23,706,560	6	22,411,868	6
Trade payables to related parties	7	737,767	-	923,557	-	610,766	-
Other payables	6(17)	31,286,562	8	33,937,995	9	28,548,426	8
Current tax liabilities	4, 6(28)	3,980,989	1	3,415,214	1	2,854,693	1
Liabilities directly associated with non-current assets held for sale	6(31), 7	-	-	675,043	-	-	-
Other current liabilities		2,186,475	1	2,100,815	1	1,549,710	1
Current portion of long-term liabilities	6(18), 8	18,425	-	18,425	-	41,160	-
Total current liabilities		129,640,234	34	119,346,691	32	104,042,430	29
<b>Non-current liabilities</b>							
Long-term borrowings	6(18), 8	400,661	-	400,661	-	-	-
Long-term payables		1,299,549	-	-	-	-	-
Net defined benefit liabilities-noncurrent	4, 6(19)	857,905	-	840,331	-	756,089	-
Deposits received	7	173,721	-	177,512	-	169,316	-
Deferred tax liabilities	4, 6(28)	3,270,373	1	3,025,449	1	2,030,439	1
Non-current liabilities-others		299,284	-	258,250	-	169,753	-
Total non-current liabilities		6,301,493	1	4,702,203	1	3,125,597	1
Total liabilities		135,941,727	35	124,048,894	33	107,168,027	30
<b>Equity attributable to owners of the parent</b>							
Share capital	6(20)						
Common stock		15,821,119	4	15,821,122	4	15,715,837	4
Capital surplus	6(20), 6(21), 6(32)	90,931,025	23	89,815,356	24	88,321,404	25
Retained earnings	6(20)						
Legal reserve		34,628,319	9	34,628,319	10	32,032,476	9
Undistributed earnings		99,026,560	25	92,324,282	25	100,839,284	28
Other equity	6(21)	11,804,424	3	12,245,801	3	6,128,979	2
Treasury shares	6(20)	(55,970)	-	(55,970)	-	(55,970)	-
Equity attributable to owners of the parent		252,155,477	64	244,778,910	66	242,982,010	68
<b>Non-controlling interests</b>	6(20), 6(33)	2,807,524	1	1,883,968	1	6,855,102	2
Total equity		254,963,001	65	246,662,878	67	249,837,112	70
<b>Total liabilities and equity</b>		<u>\$ 390,904,728</u>	<u>100</u>	<u>\$ 370,711,772</u>	<u>100</u>	<u>\$ 357,005,139</u>	<u>100</u>

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

**MEDIATEK INC. AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**For the three months ended March 31, 2017 and 2016**  
(Amounts in thousands of New Taiwan Dollars, except for earnings per share)

Description	Notes	Three Months Ended March 31			
		2017	%	2016	%
<b>Net sales</b>	6(22), 7	\$ 56,082,721	100	\$ 55,905,486	100
<b>Operating costs</b>	6(8), 6(23), 7	(37,293,025)	(66)	(34,598,088)	(62)
<b>Gross profit</b>		18,789,696	34	21,307,398	38
<b>Operating expenses</b>	6(23), 7				
Selling expenses		(2,368,309)	(5)	(1,995,893)	(3)
Administrative expenses		(1,720,439)	(3)	(1,491,247)	(3)
Research and development expenses		(13,488,970)	(24)	(13,417,166)	(24)
Total operating expenses		(17,577,718)	(32)	(16,904,306)	(30)
<b>Operating income</b>		1,211,978	2	4,403,092	8
<b>Non-operating income and expenses</b>					
Other income	6(24), 7	587,531	1	772,867	1
Other gains and losses	6(25)	5,834,334	10	108,560	-
Finance costs	6(26)	(159,849)	-	(134,483)	-
Share of profit of associates accounted for using the equity method	6(10)	27,120	-	128,151	-
Total non-operating income and expenses		6,289,136	11	875,095	1
<b>Net income before income tax</b>		7,501,114	13	5,278,187	9
<b>Income tax expense</b>	4, 6(28)	(861,957)	(1)	(805,200)	(1)
<b>Net income</b>		6,639,157	12	4,472,987	8
<b>Other comprehensive income</b>	6(10), 6(27), 6(28)				
Items that may not be reclassified subsequently to profit or loss					
Remeasurements of defined benefit plan		14	-	-	-
Items that may be reclassified subsequently to profit or loss					
Exchange differences resulting from translating the financial statements of foreign operations		(4,939,104)	(9)	(1,865,958)	(3)
Unrealized gains (losses) from available-for-sale financial assets		4,782,566	9	99,652	-
Share of other comprehensive income of associates accounted for using the equity method		2,498	-	13,562	-
Income tax relating to those items to be reclassified to profit or loss		(549,416)	(1)	(18,822)	-
<b>Other comprehensive income, net of tax</b>		(703,442)	(1)	(1,771,566)	(3)
<b>Total comprehensive income</b>		\$ 5,935,715	11	\$ 2,701,421	5
<b>Net income for the periods attributable to :</b>					
Owners of the parent	6(29)	\$ 6,702,264		\$ 4,362,997	
Non-controlling interests	6(33)	(63,107)		109,990	
		\$ 6,639,157		\$ 4,472,987	
<b>Total comprehensive income for the periods attributable to :</b>					
Owners of the parent		\$ 6,043,876		\$ 2,587,058	
Non-controlling interests		(108,161)		114,363	
		\$ 5,935,715		\$ 2,701,421	
Basic Earnings Per Share (in New Taiwan Dollars)	6(29)	\$ 4.29		\$ 2.79	
Diluted Earnings Per Share (in New Taiwan Dollars)	6(29)	\$ 4.27		\$ 2.79	

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

## MEDIATEK INC. AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the three months ended March 31, 2017 and 2016

(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		Legal reserve	Undistributed earnings	Exchange differences resulting from translating the financial statements of foreign operations	Unrealized gains (losses) from available-for-sale financial assets	Other				
Balance as of January 1, 2016	\$ 15,715,837	\$ 88,354,178	\$ 32,032,476	\$ 96,476,287	\$ 6,503,595	\$ 1,401,323	\$ -	\$ (55,970)	\$ 240,427,726	\$ 6,659,159	\$ 247,086,885
Profit for the three months ended March 31, 2016	-	-	-	4,362,997	-	-	-	-	4,362,997	109,990	4,472,987
Other comprehensive income for the three months ended March 31, 2016	-	-	-	-	(1,859,990)	84,051	-	-	(1,775,939)	4,373	(1,771,566)
Total comprehensive income	-	-	-	4,362,997	(1,859,990)	84,051	-	-	2,587,058	114,363	2,701,421
Share-based payment transactions	-	6,801	-	-	-	-	-	-	6,801	-	6,801
Changes in ownership interests in subsidiaries	-	(39,575)	-	-	-	-	-	-	(39,575)	81,580	42,005
Balance as of March 31, 2016	\$ 15,715,837	\$ 88,321,404	\$ 32,032,476	\$ 100,839,284	\$ 4,643,605	\$ 1,485,374	\$ -	\$ (55,970)	\$ 242,982,010	\$ 6,855,102	\$ 249,837,112
Balance as of January 1, 2017	\$ 15,821,122	\$ 89,815,356	\$ 34,628,319	\$ 92,324,282	\$ 2,195,895	\$ 11,525,934	\$ (1,476,028)	\$ (55,970)	\$ 244,778,910	\$ 1,883,968	\$ 246,662,878
Profit for the three months ended March 31, 2017	-	-	-	6,702,264	-	-	-	-	6,702,264	(63,107)	6,639,157
Other comprehensive income for the three months ended March 31, 2017	-	-	-	14	(4,891,552)	4,233,150	-	-	(658,388)	(45,054)	(703,442)
Total comprehensive income	-	-	-	6,702,278	(4,891,552)	4,233,150	-	-	6,043,876	(108,161)	5,935,715
Share-based payment transactions	-	(9,888)	-	-	-	-	-	-	(9,888)	-	(9,888)
The differences between the fair value of the consideration paid or received from acquiring or disposing subsidiaries and the carrying amounts of the subsidiaries	-	81,955	-	-	-	-	-	-	81,955	-	81,955
Changes in ownership interests in subsidiaries	-	1,067,949	-	-	-	-	-	-	1,067,949	790,606	1,858,555
Issuance of restricted stock for employees	(3)	(45)	-	-	-	-	217,025	-	216,977	-	216,977
Changes in other capital surplus	-	(24,302)	-	-	-	-	-	-	(24,302)	-	(24,302)
Non-controlling interests	-	-	-	-	-	-	-	-	-	241,111	241,111
Balance as of March 31, 2017	\$ 15,821,119	\$ 90,931,025	\$ 34,628,319	\$ 99,026,560	\$ (2,695,657)	\$ 15,759,084	\$ (1,259,003)	\$ (55,970)	\$ 252,155,477	\$ 2,807,524	\$ 254,963,001

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

## MEDIATEK INC. AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three months ended March 31, 2017 and 2016

(Amounts in thousands of New Taiwan Dollars)

Description	Three Months Ended March 31	
	2017	2016
<b>Cash flows from operating activities :</b>		
Profit before tax from continuing operations	\$ 7,501,114	\$ 5,278,187
Adjustments for:		
The profit or loss items which did not affect cash flows:		
Depreciation	845,570	725,781
Amortization	892,623	933,013
Bad debt reversal	(91,085)	(228,457)
Gains on financial assets and liabilities at fair value through profit or loss	(23,765)	(10,966)
Interest expenses	159,849	134,483
Interest income	(512,648)	(617,646)
Dividend income	(15,994)	(102,902)
Share-based payment expenses	207,089	10,505
Share of profit of associates accounted for using the equity method	(27,120)	(128,151)
Losses on disposal of property, plant and equipment	2,019	3,428
Property, plant and equipment transferred to expenses	312	-
Gains on disposal of non-current assets held for sale	(5,123,575)	-
Losses (Gains) on disposal of investments	44,861	(17,846)
Gains on disposal of investments accounted for using the equity method	(1,487,066)	-
Impairment of financial assets	333,193	5,257
Others	200,000	-
Changes in operating assets and liabilities:		
Financial assets at fair value through profit or loss	1,059,201	268,464
Notes receivables	1,205	-
Trade receivables	2,375,768	679,234
Other receivables	243,567	312,356
Inventories	(2,253,689)	(2,879,132)
Prepayments	(108,378)	(153,872)
Other current assets	(1,133,329)	345,415
Other non-current assets-others	-	78,429
Trade payables	35,948	6,900,736
Trade payables to related parties	(185,790)	(34,354)
Other payables	(4,439,892)	(3,337,896)
Other current liabilities	135,641	(520,113)
Long-term payables	-	(15,052)
Net defined benefit liabilities	2,344	718
Non-current liabilities-others	41,034	12,818
Cash generated from operating activities:		
Interest received	398,347	579,926
Dividend received	15,994	115,249
Interest paid	(163,149)	(145,755)
Income tax paid	(113,466)	(233,420)
Net cash (used in) provided by operating activities	(1,183,267)	7,958,437
<b>Cash flows from investing activities :</b>		
Acquisition of available-for-sale financial assets	(1,448,826)	(984,108)
Proceeds from disposal of available-for-sale financial assets	1,798,697	596,545
Acquisition of debt instrument investments for which no active market exists	(1,305,447)	(893,491)
Proceeds from disposal of debt instrument investments for which no active market exists	1,397,272	328,482
Acquisition of financial assets measured at cost	(2,201,851)	(362,437)
Proceeds from capital return of financial assets measured at cost	1,860	-
Acquisition of investments accounted for using the equity method	(894,912)	(48,423)
Net cash outflows from acquisition of subsidiaries	(1,056,531)	-
Acquisition of property, plant and equipment	(581,056)	(1,874,280)
Proceeds from disposal of property, plant and equipment	1,181	56,046
Decrease (Increase) in refundable deposits	22,094	(50,579)
Acquisition of intangible assets	(1,410,602)	(121,655)
Acquisition of investment property	-	(731)
Increase in long-term lease receivables	211,898	-
Decrease in long-term prepaid rent	7,633	3,907
Net cash used in investing activities	(5,458,590)	(3,350,724)
<b>Cash flows from financing activities :</b>		
Increase in short-term borrowings	7,747,799	66,178
Decrease in deposits received	(3,791)	(422)
Disposal of ownership interests in subsidiaries (without losing control)	81,955	-
Change in non-controlling interests	1,876,021	40,813
Net cash provided by financing activities	9,701,984	106,569
Effect of changes in exchange rate on cash and cash equivalents	(4,471,732)	(2,031,141)
Net (decrease) increase in cash and cash equivalents	(1,411,605)	2,683,141
Cash and cash equivalents at the beginning of the period	140,560,858	153,279,687
Cash and cash equivalents at the end of the period	\$ 139,149,253	\$ 155,962,828

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

**MEDIATEK INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

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

**1. Organization and Operation**

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

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

The consolidated financial statements were authorized for issue in accordance with a resolution of the Board of Directors on April 28, 2017.

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

**(1) Adoption of the newly issued or revised standards and interpretations**

MTK and its subsidiaries (“the Company”) applied for International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations developed by the International Financial Reporting Interpretation Committee (IFRIC) and Interpretations of IASs (SIC) (collectively, “TIFRS”) issued, revised or amended which are recognized by Financial Supervisory Commission (“FSC”) and become effective for annual periods beginning on or after January 1, 2017. The application has no material effect on the Company.

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

Standards or Interpretations Numbers	The Projects of Standards or Interpretations	Effective Dates
IFRS 15	“Revenue from Contracts with Customers”	January 1, 2018
IFRS 9	“Financial Instruments”	January 1, 2018

(To be continued)



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

(Continued)

Standards or Interpretations Numbers	The Projects of Standards or Interpretations	Effective Dates
IFRS 10 and IAS 28	“Consolidated Financial Statements” and “Investments in Associates and Joint Ventures” (Amendment) - Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures	Postponed indefinitely
IFRS 16	“Leases”	January 1, 2019
IAS 12	“Income Taxes”- Recognition of Deferred Tax Assets for Unrealised Losses	January 1, 2017
IAS 7	“Statement of Cash Flows” (Amendment) - Disclosure Initiative	January 1, 2017
IFRS 15	“Revenue from Contracts with Customers” (Clarification)	January 1, 2018
IFRS 2	“Shared-Based Payment” (Amendment)	January 1, 2018
IFRS 4	“Insurance Contracts” (Amendment)	Not earlier than 2020
IAS 40	“Investment Property” (Amendment)	January 1, 2018
Improvements to International Financial Reporting Standards (2014-2016 cycle) :		
IFRS 1	“First-time Adoption of International Financial Reporting Standards”	January 1, 2018
IFRS 12	“Disclosure of Interests in Other Entities”	January 1, 2017
IAS 28	“Investments in Associates and Joint Ventures”	January 1, 2018
IFRIC 22	“Foreign Currency Transactions and Advance Consideration”	January 1, 2018

**A. IFRS 15 “Revenue from Contracts with Customers”**

The core principle of the new Standard is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognizes revenue in accordance with that core principle by applying the following steps:

Step 1 : Identify the contracts with a customer;

Step 2 : Identify the performance obligations in the contract;

Step 3 : Determine the transaction price;

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

Step 4 : Allocate the transaction price to the performance obligations in the contracts;

Step 5 : Recognize revenue when the entity satisfies a performance obligation.

IFRS 15 also includes a cohesive set of disclosure requirements that would result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

**B. IFRS 9 “Financial Instruments”**

The IASB has issued the final version of IFRS 9, which combines classification and measurement, impairment and hedge accounting. The standard will replace IAS 39 “Financial Instruments: Recognition and Measurement” and all previous versions of IFRS 9 “Financial Instruments” (which include standards issued on classification and measurement of financial assets and liabilities and hedge accounting).

Classification and measurement: Financial assets are measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity’s business model for managing the financial assets and the financial asset’s contractual cash flow characteristics. Financial liabilities are measured at amortized cost or fair value through profit or loss. Furthermore, there is a requirement that ‘own credit risk’ adjustments are not recognized in profit or loss.

Impairment: Expected credit loss model is used to evaluate impairment. Entities are required to recognize either 12-month or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.

Hedge accounting: Hedge accounting is more closely aligned with risk management activities and hedge effectiveness is measured based on the hedge ratio.

**C. IFRS 16 “Leases”**

The new standard requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions). Lessor accounting still uses the dual classification approach: operating lease and finance lease.

**D. IFRS 15 “Revenue from Contracts with Customers” (Clarification)**

The amendments clarify how to identify a performance obligation in a contract, determine whether an entity is a principal or an agent, and determine whether the revenue from granting a license should be recognized at a point in time or over time.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

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

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

**F. Improvements to International Financial Reporting Standards (2014-2016 cycle):**

**IAS 28 “Investments in Associates and Joint Ventures”**

The amendments clarify that when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and other qualifying entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with IFRS 9 “Financial Instruments” on an investment-by-investment basis. Besides, if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries on an investment-by-investment basis.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

The abovementioned standards and interpretations issued by 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-F, it is not practicable to estimate their impact on the Company at this point in time. All other standards and interpretations have no material impact on the Company.

**4. Summary of Significant Accounting Policies**

Statement of Compliance

The consolidated financial statements of the Company for the three months ended March 31, 2017 and 2016 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.

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.

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

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.

If loses control of a subsidiary, it:

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

The consolidated entities are listed as follows:

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			March 31, 2017	December 31, 2016	March 31, 2016	
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%	-

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			March 31, 2017	December 31, 2016	March 31, 2016	
MTK	T-Rich Technology (Cayman) Corp.	General investing	100%	100%	100%	-
MTK	MStar Semiconductor Inc.	Research, manufacturing and sales	100%	100%	100%	-
MTK	Hsu-Chuang Investment Corp.	General investing	100%	100%	100%	-
MTK	HFI Innovation Inc.	Intellectual property right management	100%	100%	100%	1
Hsu-Ta Investment Corp.	Core Tech Resources Inc.	General investing	100%	100%	100%	-
Hsu-Ta Investment Corp.	MediaTek Capital Corp.	General investing	100%	100%	100%	-
Hsu-Ta Investment Corp.	MediaTek Bangalore Private Limited	Research	0%	0%	0%	-
Hsu-Ta Investment Corp.	Hsu-Si Investment Corp.	General investing	100%	100%	100%	-
Hsu-Ta Investment Corp.	Airoha Technology Corp.	Research, manufacturing and sales	5%	-	-	2
MediaTek Capital Corp.	RollTech Technology Co., Ltd.	Software development	67%	67%	67%	-
MediaTek Capital Corp.	E-Vehicle Semiconductor Technology Co., Ltd.	Research, manufacturing and sales	51%	51%	51%	-
MediaTek Capital Corp.	Chingis Technology Corp.	Research	100%	100%	100%	-
MediaTek Capital Corp.	Velocenet Inc.	Research	100%	100%	100%	-
MediaTek Capital Corp.	Nephos (Taiwan) Inc.	Research	100%	100%	100%	-
MediaTek Capital Corp.	Airoha Technology Corp.	Research, manufacturing and sales	17%	-	-	2
Core Tech Resources Inc.	MediaTek India Technology Pvt. Ltd.	Research	0%	0%	0%	-

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			March 31, 2017	December 31, 2016	March 31, 2016	
Hsu-Si Investment Corp.	Richtek Technology Corp.	Research, manufacturing and sales	100%	100%	51%	3
Hsu-Si Investment Corp.	Airoha Technology Corp.	Research, manufacturing and sales	40%	-	-	2
Richtek Technology Corp.	Richstar Group Co., Ltd.	General investing	100%	100%	100%	3
Richtek Technology Corp.	Ironman Overseas Co., Ltd.	General investing	100%	100%	100%	3
Richtek Technology Corp.	Richtek Europe Holding B.V.	General investing	100%	100%	100%	3
Richtek Technology Corp.	Richtek Holding International Limited	General investing	100%	100%	100%	3
Richtek Technology Corp.	Richpower Microelectronics Corp.	Manufacturing and sales	100%	100%	100%	3
Richtek Technology Corp.	Li-Yu Investment Corp.	General investing	100%	100%	100%	3
Richtek Technology Corp.	Richnex Microelectronics Corp.	Research, manufacturing and sales	79%	77%	77%	3
Richtek Technology Corp.	Richtek Global Marketing Co., Ltd.	General investing	100%	100%	100%	3
Richstar Group Co., Ltd.	Richtek USA Inc.	Sales and marketing service	100%	100%	100%	3
Ironman Overseas Co., Ltd.	Cosmic-Ray Technology Limited	General investing	100%	100%	100%	3
Richtek Europe Holding B.V.	Richtek Europe B.V.	Marketing service	100%	100%	100%	3
Cosmic-Ray Technology Limited	Li-We Technology Corp.	Marketing service	100%	100%	100%	3
Richpower Microelectronics Corp.	Richpower Microelectronics Corporation	Management service	100%	100%	100%	3

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			March 31, 2017	December 31, 2016	March 31, 2016	
Richpower Microelectronics Corp.	Richpower Microelectronics Co., Ltd.	Marketing service	100%	100%	100%	3
Li-Yu Investment Corp.	Corporate Event Limited	Marketing service	51%	51%	51%	3
Richtek Global Marketing Co., Ltd	Richtek Korea LLC.	Sales and marketing service	100%	100%	100%	3
Airoha Technology Corp.	Airoha Technology (Samoa) Corp.	General investing	100%	-	-	2
Gaintech Co. Limited	MediaTek China Limited	General investing	100%	100%	100%	-
Gaintech Co. Limited	MTK Wireless Limited (UK)	Research	100%	100%	100%	-
Gaintech Co. Limited	MediaTek Japan Inc.	Research	100%	100%	100%	-
Gaintech Co. Limited	MediaTek India Technology Pvt. Ltd.	Research	100%	100%	100%	-
Gaintech Co. Limited	MediaTek Korea Inc.	Research	100%	100%	100%	-
Gaintech Co. Limited	Hesine Technologies International Worldwide Inc.	General investing	52%	52%	52%	-
Gaintech Co. Limited	Gold Rich International (Samoa) Limited	General investing	100%	100%	100%	-
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	83%	83%	88%	-
Gaintech Co. Limited	MediaTek Wireless FZ-LLC	Technology services	100%	100%	100%	-
Gaintech Co. Limited	Digital Lord Limited	General investing	100%	100%	100%	-
Gaintech Co. Limited	Hsu Chia (Samoa) Investment Ltd.	General investing	100%	100%	100%	-
Gaintech Co. Limited	Hsu Fa (Samoa) Investment Ltd.	General investing	100%	100%	100%	-
Gaintech Co. Limited	Hsu Kang (Samoa) Investment Ltd.	General investing	100%	100%	100%	-
Gaintech Co. Limited	Nephos Pte. Ltd.	Research	100%	100%	100%	-

(To be continued)



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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			March 31, 2017	December 31, 2016	March 31, 2016	
Gaintech Co. Limited	Nephos Inc.	Research	100%	100%	100%	-
Gaintech Co. Limited	Nephos Cayman Co. Limited	General investing	100%	100%	100%	-
Gaintech Co. Limited	Dynamic Presence Limited	General investing	100%	100%	-	4
Gaintech Co. Limited	White Dwarf Limited	General investing	100%	100%	-	5
MediaTek China Limited	MediaTek (Hefei) Inc.	Research	100%	100%	100%	-
MediaTek China Limited	MediaTek (Beijing) Inc.	Research	100%	100%	100%	-
MediaTek China Limited	MediaTek (Shenzhen) Inc.	Research and technology services	100%	100%	100%	-
MediaTek China Limited	MediaTek (Chengdu) Inc.	Research	100%	100%	100%	-
MediaTek China Limited	MediaTek (Wuhan) Inc.	Research	100%	100%	100%	-
MediaTek China Limited	Xuxin Investment (Shanghai) Inc.	General investing	100%	100%	100%	6
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 Denmark Aps	Research	100%	100%	100%	-
MTK Wireless Limited (UK)	MediaTek Wireless Finland Oy	Research	100%	100%	100%	-
Hesine Technologies International Worldwide Inc.	Hesine Technologies, Inc.	Technology services	100%	100%	100%	-
Gold Rich International (Samoa) Limited	Gold Rich International (HK) Limited	General investing	100%	100%	100%	-
Digital Lord Limited	Lepower (HK) Limited	General investing	100%	100%	100%	-

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			March 31, 2017	December 31, 2016	March 31, 2016	
Lepower (HK) Limited	Lepower Technologies (Beijing), Inc.	Research, manufacturing and sales	100%	91%	91%	-
E-Vehicle Semiconductor Technology Co., Ltd.	E-Vehicle Holdings Corp.	General investing	100%	100%	100%	-
E-Vehicle Holdings Corp.	E-Vehicle Investment Limited	General investing	100%	100%	100%	-
E-Vehicle Investment Limited	E-Vehicle Semiconductor (Shanghai) Co., Ltd.	Research, manufacturing and sales	100%	100%	100%	-
EcoNet (Cayman) Inc.	Shadow Investment Limited	General investing	100%	100%	100%	-
EcoNet (Cayman) Inc.	EcoNet (HK) Limited	Research and sales	100%	100%	100%	-
EcoNet (Cayman) Inc.	EcoNet Limited	General investing	100%	100%	-	7
EcoNet (HK) Limited	EcoNet (Suzhou) Limited	Research, manufacturing and sales	100%	100%	100%	-
Shadow Investment Limited	MediaTek (Suzhou) Inc.	Research	100%	100%	100%	-
Shadow Investment Limited	MediaTek (Nanjing) Inc.	Research	100%	100%	100%	-
Ralink Technology (Samoa) Corp.	AutoChips Inc.	Research, manufacturing and sales	-	83%	83%	8
MediaTek Investment Singapore Pte. Ltd.	MStar Semiconductor B.V.	General investing	100%	100%	100%	-
MediaTek Investment Singapore Pte. Ltd.	Lightup International Corp.	General investing	100%	100%	100%	-
MediaTek Investment Singapore Pte. Ltd.	MediaTek Bangalore Private Limited	Research	100%	100%	100%	-
MediaTek Investment Singapore Pte. Ltd.	Gaintech Co. Limited	General investing	100%	100%	100%	-
MediaTek Investment Singapore Pte. Ltd.	Cloud Ranger Limited	General investing	100%	100%	100%	-

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			March 31, 2017	December 31, 2016	March 31, 2016	
MStar Semiconductor B.V.	White Dwarf Limited	General investing	-	-	100%	5
MStar Semiconductor, Inc.	MStar France SAS	Software development	100%	100%	100%	-
MStar Semiconductor, Inc.	Shunfonger Investment Holding Limited	General investing	100%	100%	100%	-
MStar Semiconductor, Inc.	IStar Technology Ltd.	General investing and sales	100%	100%	100%	-
MStar Semiconductor, Inc.	MStar Co., Ltd.	General investing	100%	100%	100%	-
MStar Semiconductor, Inc.	Digimoc Holdings Limited	General investing	100%	100%	100%	-
MStar Semiconductor, Inc.	MStar Semiconductor UK Ltd.	Software and customer development	100%	100%	100%	-
MStar Semiconductor, Inc.	ILI Technology Corporation	Research, manufacturing and sales	100%	100%	100%	9
MStar Semiconductor, Inc.	AIT Holding Ltd.	General investing	100%	100%	100%	-
MStar Semiconductor, Inc.	MStar Technology Pte. Ltd.	Customer development	100%	100%	100%	-
MStar Semiconductor, Inc.	MShining International Corporation	Selling of electronic parts	100%	100%	100%	10
AIT Holding Ltd.	AIT Management Ltd.	General investing	100%	100%	100%	-
MStar Co. Ltd.	MStar Software R&D (Shenzhen), Ltd.	Software and customer development	100%	100%	100%	-
Digimoc Holdings Limited	Bubbly Bay Holdings Limited	General investing	100%	100%	100%	-
MStar Software R&D (Shenzhen), Ltd.	MStar Chen Xi Software Shanghai Ltd.	Software and customer development	100%	100%	100%	-
MStar Semiconductor UK Ltd.	MSilicon Technology Corp.	Research and technology services	100%	100%	100%	11

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			March 31, 2017	December 31, 2016	March 31, 2016	
MStar Technology Pte. Ltd.	MStar Semiconductor India Private Limited	Research and technology services	100%	100%	100%	-
IStar Technology Ltd.	Beijing Ilitek Technology Co. Ltd.	Research and technology services	100%	100%	-	12
ILI Technology Corporation	ILITEK Holding Inc.	General investing	100%	100%	-	9
ILITEK Holding Inc.	ILI Technology(SZ) LTD.	Technology services	100%	100%	-	9
MediaTek (Shenzhen) Inc.	Shanghai ShanShengChuangXin Investment Partnership (Limited Partnership)	General investing	2%	2%	-	13
MediaTek (Shanghai) Inc.	Shanghai ShanShengChuangXin Investment Partnership (Limited Partnership)	General investing	2%	2%	-	13
Nephos Cayman Co. Limited	Nephos (Hefei) Co. Ltd.	Research, manufacturing and sales	63%	100%	-	14

1. MTK established HFI Innovation Inc. in February 2016.
2. Hsu-Si Investment Corp. ("Hsu-Si Investment") accomplished the tender offer and acquired 40% shares of Airoha Technology Corp. ("Airoha") in March 2017. A control over Airoha was obtained and therefore all the subsidiaries of Airoha were included in the consolidated entities thereafter.
3. Hsu-Si Investment accomplished the take-over bid process to acquire 51% shares of Richtek Technology Corp. ("Richtek") in October 2015. Hsu-Si Investment obtained control over Richtek. Subsidiaries of Richtek were included in the consolidated entities thereafter. In April 2016, Hsu-Si Investment acquired the remaining 49% ownership of Richtek.
4. Gaintech Co. Limited established Dynamic Presence Limited in April 2016.
5. For the purpose of reorganization, the 100% ownership of White Dwarf Limited, which was previously owned by MStar Semiconductor B.V., was transferred to Gaintech Co. Limited in April 2016.
6. MediaTek (Shanghai) Inc. was renamed Xuxin Investment (Shanghai) Inc. in March 2016.
7. EcoNet (Cayman) Inc. established EcoNet Limited in October 2016.
8. Ralink Technology (Samoa) Corp. transferred the shareholding rights of AutoChips Inc. and derecognized it in March 2017.
9. Mrise Technology Inc. ("Mrise Tech.") accomplished the acquisition of 100% shares of ILI Technology Corporation ("ILI Tech.") in June 2016. After that, ILI Tech. was dissolved and Mrise Tech. was renamed ILI Technology Corporation ("ILI Tech."). Subsidiaries of ILI Tech. were included in the consolidated entities thereafter.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

10. MStar Semiconductor, Inc. established MShining International Corporation in March 2016.
11. MStar Semiconductor UK Ltd. established MStar Semiconductor India Private Limited in March 2016.
12. IStar Technology Ltd. established MStar Chen Xin Technology (Beijing), Ltd. in May 2016. MStar Chen Xin Technology (Beijing), Ltd. was renamed Beijing Ilitek Technology Co. Ltd. in August 2016.
13. MediaTek (Shenzhen) Inc. and MediaTek (Shanghai) Inc. established Shanghai ShanShengChuangXin Investment Partnership (Limited Partnership) in February 2016. Since the Company has the ability to direct the relevant activities of Shanghai ShanShengChuangXin Investment Partnership (Limited Partnership) and has control over it, the Company included it in consolidation.
14. Nephos Cayman Co. Limited established Nephos (Hefei) Co. Ltd. in July 2016.

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

Except for the accounting policies listed below, the same accounting policies have been followed in this consolidated financial statements as were applied in the preparation of the Company's consolidated financial statements for the year ended December 31, 2016. For the summary of other significant accounting policies, please refer to the consolidated financial statements for the year ended December 31, 2016.

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

**5. Significant Accounting Judgments, Estimates and Assumptions**

The same significant accounting judgments, estimates and assumptions have been followed in this consolidated financial statements as were applied in the preparation of the Company's consolidated financial statements for the year ended December 31, 2016. For the summary of significant accounting judgments, estimates and assumptions, please refer to the consolidated financial statements for the year ended December 31, 2016.

**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**

	March 31, 2017	December 31, 2016	March 31, 2016
Cash on hand and petty cash	\$ 5,109	\$ 5,637	\$ 6,616
Checking and savings accounts	17,916,814	16,264,596	25,624,124
Time deposits	120,963,956	123,322,255	130,332,088
Cash equivalents - repurchase agreements	263,374	968,370	-
Total	<u>\$ 139,149,253</u>	<u>\$ 140,560,858</u>	<u>\$ 155,962,828</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**

	March 31, 2017	December 31, 2016	March 31, 2016
<u>Current</u>			
<u>Held for trading financial assets</u>			
Stocks	\$ -	\$ -	\$ 4,751
Forward exchange contracts	-	1,850	-
Subtotal	<u>-</u>	<u>1,850</u>	<u>4,751</u>
<u>Financial assets designated upon initial recognition at fair value through profit or loss</u>			
Index-linked deposits	532,790	585,381	250,287
Credit-linked deposits	-	773,895	2,845,156
Exchange rate-linked deposits	-	609,376	1,359,814
Bonds	-	-	1,157,358
Subtotal	<u>532,790</u>	<u>1,968,652</u>	<u>5,612,615</u>
Total	<u>\$ 532,790</u>	<u>\$ 1,970,502</u>	<u>\$ 5,617,366</u>
<u>Held for trading financial liabilities</u>			
Forward exchange contracts	<u>\$ 42,683</u>	<u>\$ 45,098</u>	<u>\$ -</u>

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

	March 31, 2017	December 31, 2016	March 31, 2016
<u>Noncurrent</u>			
<u>Financial assets designated upon</u>			
<u>initial recognition at fair value</u>			
<u>through profit or loss</u>			
Credit-linked deposits	\$ 3,157,998	\$ 2,747,046	\$ 1,976,746
Bonds	1,078,533	1,110,627	534,078
Interest rate-linked deposits	524,275	845,741	290,538
Index-linked deposits	267,356	293,679	902,463
Total	<u>\$ 5,028,162</u>	<u>\$ 4,997,093</u>	<u>\$ 3,703,825</u>

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

**(3) Available-for-sale financial assets**

	March 31, 2017	December 31, 2016	March 31, 2016
<u>Current</u>			
Stocks	\$ 6,734,029	\$ 4,941,140	\$ 1,508,000
Bonds	2,535,495	2,380,979	3,710,938
Funds	1,879,726	2,083,241	3,326,150
Depository receipts	10,818	23,314	29,135
Subtotal	<u>11,160,068</u>	<u>9,428,674</u>	<u>8,574,223</u>
<u>Noncurrent</u>			
Stocks	13,593,744	10,456,103	582,538
Bonds	4,986,309	5,421,848	3,579,919
Funds	2,688,494	3,036,766	4,049,283
Subtotal	<u>21,268,547</u>	<u>18,914,717</u>	<u>8,211,740</u>
Total	<u>\$ 32,428,615</u>	<u>\$ 28,343,391</u>	<u>\$ 16,785,963</u>

The Company assessed and concluded its available-for-sale financial assets were partially impaired, and recorded an impairment loss of NT\$63,520 thousand for the three months ended March 31, 2017.

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

Investment in Shenzhen Huiding Technology Co., Ltd. accounted for using the equity method was reclassified to available-for-sale financial assets as the Company lost significant influence over it in the fourth quarter of 2016.

Available-for-sale financial assets were not pledged.

**(4) Held-to-maturity financial assets**

	March 31, 2017	December 31, 2016	March 31, 2016
<u>Current</u>			
Bonds	\$ -	\$ -	\$ 1,253,951
<u>Noncurrent</u>			
Bonds	-	-	260,179
Total	\$ -	\$ -	\$ 1,514,130

Held-to-maturity financial assets were not pledged.

**(5) Financial assets measured at cost**

	March 31, 2017	December 31, 2016	March 31, 2016
<u>Available-for-sale financial assets-</u> <u>noncurrent</u>			
Capital	\$ 6,424,484	\$ 5,539,220	\$ 4,041,578
Non-publicly traded stocks	2,032,437	1,355,967	1,110,974
Total	\$ 8,456,921	\$ 6,895,187	\$ 5,152,552

The Company assessed and concluded its financial assets measured at cost were partially impaired and recorded an impairment loss of NT\$269,673 thousand and NT\$5,257 thousand for the three months ended March 31, 2017 and 2016, respectively.

Financial assets measured at cost were not pledged.



**MEDIATEK INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(6) Debt instrument investments for which no active market exists**

	March 31, 2017	December 31, 2016	March 31, 2016
<u>Current</u>			
Bonds	\$ 1,304,448	\$ 1,486,607	\$ 1,304,355
Time deposits	18,885	18,885	9,180
Subtotal	1,323,333	1,505,492	1,313,535
<u>Noncurrent</u>			
Time deposits	271,791	257,928	263,173
Preferred stock	-	-	3,204
Subtotal	271,791	257,928	266,377
Total	\$ 1,595,124	\$ 1,763,420	\$ 1,579,912

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

**(7) Trade receivables**

	March 31, 2017	December 31, 2016	March 31, 2016
Trade receivables	\$ 25,358,727	\$ 27,828,309	\$ 20,883,390
Less: allowance for doubtful debts	(199,741)	(294,701)	(134,215)
Less: allowance for sales returns and discounts	(6,872,913)	(7,055,613)	(5,151,147)
Total	\$ 18,286,073	\$ 20,477,995	\$ 15,598,028

Trade receivables were not pledged.

Trade receivables are generally on 30-150 day terms. The movements in the provision for impairment of trade receivables are as follows (please refer to Note 12 for credit risk disclosure):

	Individually impaired	Collectively impaired	Total
As of January 1, 2017	\$ -	\$ 294,701	\$ 294,701
Reversal for the current period	-	(91,085)	(91,085)
Exchange differences	-	(3,875)	(3,875)
As of March 31, 2017	\$ -	\$ 199,741	\$ 199,741

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

	Individually impaired	Collectively impaired	Total
As of January 1, 2016	\$ -	\$ 363,564	\$ 363,564
Reversal for the current period	-	(228,457)	(228,457)
Exchange differences	-	(892)	(892)
As of March 31, 2016	\$ -	\$ 134,215	\$ 134,215

Aging analysis of trade receivables:

As of	Neither past due nor impaired	Past due but not impaired		Total
		1 to 90 days	More than 91 days	
March 31, 2017	\$ 17,631,547	\$ 652,872	\$ 1,654	\$ 18,286,073
December 31, 2016	\$ 19,232,040	\$ 1,245,723	\$ 232	\$ 20,477,995
March 31, 2016	\$ 15,034,735	\$ 548,141	\$ 15,152	\$ 15,598,028

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\$2,349,835 thousand, NT\$2,084,674 thousand and NT\$740,240 thousand as of March 31, 2017, December 31, 2016, and March 31, 2016, respectively.

As of March 31, 2017, December 31, 2016, and March 31, 2016, trade receivables derecognized were as follows:

**A. As of March 31, 2017:**

The Factor (Transferee)	Interest rate	Trade receivables	Cash	Unutilized (US\$'000)	Credit line (US\$'000)
		derecognized (US\$'000)	withdrawn (US\$'000)		
Taishin International Bank	-	\$ 39,493	\$ -	\$ 39,493	\$ 85,041
BNP Paribas	-	5,019	-	5,019	69,000
HSBC	-	133	-	133	500
TC Bank	-	69	-	69	300
ING Bank	-	22,777	-	22,777	50,000
Fubon Bank	-	9,969	-	9,969	10,000
Total		\$ 77,460	\$ -	\$ 77,460	\$ 214,841

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

B. As of December 31, 2016:

The Factor (Transferee)	Interest rate	Trade receivables derecognized (US\$'000)	Cash withdrawn (US\$'000)	Unutilized (US\$'000)	Credit line (US\$'000)
Taishin International Bank	-	\$ 44,721	\$ -	\$ 44,721	\$ 108,549
BNP Paribas	-	19,684	-	19,684	85,000
HSBC	-	66	-	66	500
TC Bank	-	112	-	112	300
ING Bank	-	-	-	-	75,000
Total		\$ 64,583	\$ -	\$ 64,583	\$ 269,349

C. As of March 31, 2016:

The Factor (Transferee)	Interest rate	Trade receivables derecognized (US\$'000)	Cash withdrawn (US\$'000)	Unutilized (US\$'000)	Credit line (US\$'000)
Taishin International Bank	-	\$ 12,378	\$ -	\$ 12,378	\$ 128,549
BNP Paribas	-	7,139	-	7,139	85,000
HSBC	-	-	-	-	1,000
TC Bank	-	3,413	-	3,413	15,750
ING Bank	-	-	-	-	100,000
Total		\$ 22,930	\$ -	\$ 22,930	\$ 330,299

**(8) Inventories**

	March 31, 2017	December 31, 2016	March 31, 2016
Raw materials	\$ 3,212,209	\$ 2,896,421	\$ 2,448,730
Work in progress	19,136,322	17,056,723	15,406,338
Finished goods	15,272,289	13,969,770	9,172,031
Net amount	\$ 37,620,820	\$ 33,922,914	\$ 27,027,099

For the three months ended March 31, 2017 and 2016, the cost of inventories recognized in expenses amounted to NT\$37,293,025 thousand and NT\$34,598,088 thousand, including the write-down of inventories of NT\$2,603,284 thousand and NT\$247,737 thousand for the three months ended March 31, 2017 and 2016, respectively.

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)****(9) Prepayments**

	March 31, 2017	December 31, 2016	March 31, 2016
Prepaid expenses	\$ 493,861	\$ 447,418	\$ 1,421,037
Input tax	377,333	406,737	302,295
Others	769,162	651,066	622,889
Total	<u>\$ 1,640,356</u>	<u>\$ 1,505,221</u>	<u>\$ 2,346,221</u>

**(10) Investments accounted for using the equity method**

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

Investees	March 31, 2017		December 31, 2016		March 31, 2016	
	Carrying amount	Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)
Investments in associates:						
Shenzhen Huiding Technology Co., Ltd.	\$ -	-	\$ -	-	\$ 1,473,549	24
Airoha Technology Corp.	-	-	614,920	26	543,536	24
Others	1,942,947	-	2,062,758	-	821,416	-
Subtotal	<u>1,942,947</u>		<u>2,677,678</u>		<u>2,838,501</u>	
Investments in jointly controlled entities:						
Yuan Ke (Pingtan) Investment Fund Limited Partnership	3,930,447	81	3,228,117	77	-	-
Subtotal	<u>3,930,447</u>		<u>3,228,117</u>		<u>-</u>	
Total	<u>\$ 5,873,394</u>		<u>\$ 5,905,795</u>		<u>\$ 2,838,501</u>	

Investment in Shenzhen Huiding Technology Co., Ltd. accounted for using the equity method was reclassified to available-for-sale financial assets as the Company lost significant influence over it in the fourth quarter of 2016.

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

Subsidiary Hsu-Si Investment acquired 24,230,620 shares (approximately 40% of Airoha issued shares) of Airoha through a tender offer for the three months ended March 31, 2017. The price of the tender offer was NT\$110 per share and the total amount paid in cash amounted to NT\$2,665,368 thousand. Hsu-Si Investment obtained control over Airoha in March 2017 and Airoha was included in the consolidated entities thereafter. Please refer to Note 6. (30) for more details.

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

The Company's investments in 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:

**(1) Investments in associates**

	Three months ended March 31	
	2017	2016
Profit from continuing operations	\$ 2,166	\$ 92,262
Other comprehensive income (post-tax)	2,855	(442)
Total comprehensive income	<u>\$ 5,021</u>	<u>\$ 91,820</u>

**(2) Investments in jointly controlled entities**

	Three months ended March 31	
	2017	2016
Profit from continuing operations	\$ 31,011	\$ -
Other comprehensive income (post-tax)	-	-
Total comprehensive income	<u>\$ 31,011</u>	<u>\$ -</u>

The associates and jointly controlled entities had no contingent liabilities or capital commitments and investments in associates and jointly controlled entities were not pledged as of March 31, 2017, December 31, 2016, and March 31, 2016.

**MEDIATEK INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(11) Property, plant and equipment**

	Land	Buildings and facilities	Machinery equipment	Computer and telecommunication equipment	Testing equipment	Miscellaneous equipment	Construction in progress and equipment awaiting examination	Total
Cost:								
As of January 1, 2017	\$ 5,108,639	\$ 21,282,705	\$ 1,210,479	\$ 5,000,627	\$ 6,861,389	\$ 2,284,831	\$ 6,036,276	\$ 47,784,946
Additions-acquired separately	-	58,599	37,844	174,341	232,128	110,778	55,989	669,679
Additions-acquired through business combinations	-	-	80,586	-	-	6,830	-	87,416
Disposals	-	(2,750)	(19)	(40,181)	(27,489)	(72,100)	(176)	(142,715)
Transfers	2,964	(217,481)	12,373	-	3,151	10,193	(34,685)	(223,485)
Exchange differences	(2)	(440,558)	(2,124)	(109,160)	(114,657)	(61,751)	(285,147)	(1,013,399)
As of March 31, 2017	<u>\$ 5,111,601</u>	<u>\$ 20,680,515</u>	<u>\$ 1,339,139</u>	<u>\$ 5,025,627</u>	<u>\$ 6,954,522</u>	<u>\$ 2,278,781</u>	<u>\$ 5,772,257</u>	<u>\$ 47,162,442</u>
As of January 1, 2016	\$ 5,123,337	\$ 15,806,035	\$ 788,085	\$ 4,351,303	\$ 5,989,356	\$ 2,014,817	\$ 9,351,757	\$ 43,424,690
Additions-acquired separately	11,405	44,188	60,790	347,380	197,924	170,576	1,378,478	2,210,741
Disposals	-	(52,174)	(235,077)	(104,604)	(22,724)	(114,724)	-	(529,303)
Transfers	(2,867)	12,658	-	2,732	198,903	-	(224,690)	(13,264)
Exchange differences	-	(97,359)	(718)	(42,534)	(64,168)	(23,199)	(145,912)	(373,890)
As of March 31, 2016	<u>\$ 5,131,875</u>	<u>\$ 15,713,348</u>	<u>\$ 613,080</u>	<u>\$ 4,554,277</u>	<u>\$ 6,299,291</u>	<u>\$ 2,047,470</u>	<u>\$ 10,359,633</u>	<u>\$ 44,718,974</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, 2017	\$ -	\$ 2,903,910	\$ 271,703	\$ 2,772,783	\$ 3,700,970	\$ 1,277,840	\$ -	\$ 10,927,206
Depreciation	-	147,702	60,376	233,612	250,847	149,946	-	842,483
Disposals	-	(2,210)	(19)	(38,257)	(27,441)	(71,276)	-	(139,203)
Transfers	-	(7,833)	-	-	-	-	-	(7,833)
Exchange differences	-	(19,827)	(1,140)	(74,120)	(71,192)	(48,172)	-	(214,451)
As of March 31, 2017	<u>\$ -</u>	<u>\$ 3,021,742</u>	<u>\$ 330,920</u>	<u>\$ 2,894,018</u>	<u>\$ 3,853,184</u>	<u>\$ 1,308,338</u>	<u>\$ -</u>	<u>\$ 11,408,202</u>
As of January 1, 2016	\$ -	\$ 2,491,917	\$ 80,014	\$ 2,326,856	\$ 3,178,509	\$ 957,317	\$ -	\$ 9,034,613
Depreciation	-	117,951	41,514	203,864	215,649	146,488	-	725,466
Disposals	-	-	(233,939)	(102,568)	(20,609)	(112,713)	-	(469,829)
Transfers	-	(530)	(483)	-	-	483	-	(530)
Exchange differences	-	(5,195)	(714)	(26,570)	(49,410)	(19,691)	-	(101,580)
As of March 31, 2016	<u>\$ -</u>	<u>\$ 2,604,143</u>	<u>\$ (113,608)</u>	<u>\$ 2,401,582</u>	<u>\$ 3,324,139</u>	<u>\$ 971,884</u>	<u>\$ -</u>	<u>\$ 9,188,140</u>
Net carrying amount as of:								
March 31, 2017	<u>\$ 5,111,601</u>	<u>\$17,658,773</u>	<u>\$ 1,008,219</u>	<u>\$ 2,131,609</u>	<u>\$ 3,101,338</u>	<u>\$ 970,443</u>	<u>\$ 5,772,257</u>	<u>\$ 35,754,240</u>
December 31, 2016	<u>\$ 5,108,639</u>	<u>\$18,378,795</u>	<u>\$ 938,776</u>	<u>\$ 2,227,844</u>	<u>\$ 3,160,419</u>	<u>\$ 1,006,991</u>	<u>\$ 6,036,276</u>	<u>\$ 36,857,740</u>
March 31, 2016	<u>\$ 5,131,875</u>	<u>\$13,109,205</u>	<u>\$ 726,688</u>	<u>\$ 2,152,695</u>	<u>\$ 2,975,152</u>	<u>\$ 1,075,586</u>	<u>\$ 10,359,633</u>	<u>\$ 35,530,834</u>

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

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

## (12) Investment property

	Land	Buildings	Total
Cost:			
As of January 1, 2017	\$ 199,661	\$ 490,073	\$ 689,734
Transfers	-	166,735	166,735
Exchange differences	-	(22,552)	(22,552)
As of March 31, 2017	<u>\$ 199,661</u>	<u>\$ 634,256</u>	<u>\$ 833,917</u>
As of January 1, 2016	\$ 218,885	\$ 56,857	\$ 275,742
Addition	475	256	731
Transfers	2,881	7,983	10,864
As of March 31, 2016	<u>\$ 222,241</u>	<u>\$ 65,096</u>	<u>\$ 287,337</u>
Depreciation and impairment:			
As of January 1, 2017	\$ -	\$ 38,326	\$ 38,326
Depreciation	-	3,087	3,087
Transfers	-	8,571	8,571
Exchange differences	-	(1,969)	(1,969)
As of March 31, 2017	<u>\$ -</u>	<u>\$ 48,015</u>	<u>\$ 48,015</u>
As of January 1, 2016	\$ -	\$ 152	\$ 152
Depreciation	-	315	315
Transfers	-	530	530
As of March 31, 2016	<u>\$ -</u>	<u>\$ 997</u>	<u>\$ 997</u>
Net carrying amount as of:			
March 31, 2017	<u>\$ 199,661</u>	<u>\$ 586,241</u>	<u>\$ 785,902</u>
December 31, 2016	<u>\$ 199,661</u>	<u>\$ 451,747</u>	<u>\$ 651,408</u>
March 31, 2016	<u>\$ 222,241</u>	<u>\$ 64,099</u>	<u>\$ 286,340</u>



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

	Three months ended March 31	
	2017	2016
Rental income from investment properties	\$ 11,779	\$ 2,168
Less:		
Direct operating expenses from investment properties generating rental income	(3,087)	(315)
Total	<u>\$ 8,692</u>	<u>\$ 1,853</u>

Investment properties were not pledged.

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

Based on comparative approach:	March 31, 2017	December 31, 2016	March 31, 2016
Fair value	<u>\$ 957,149</u>	<u>\$ 697,311</u>	<u>\$ -</u>
Based on comparative approach and income approach:	March 31, 2017	December 31, 2016	March 31, 2016
Fair value	<u>\$ 254,334</u>	<u>\$ 254,334</u>	<u>\$ 279,041</u>
Income capitalization rate	<u>1.23%-2.67%</u>	<u>1.23%-2.67%</u>	<u>1.37%-2.64%</u>

The fair value of investment properties were NT\$951,645 thousand and NT\$279,041 thousand as of December 31, 2016 and 2015, respectively. The Company's management assessed that the fair value of its investment properties did not change significantly in the three months ended March 31, 2017 and 2016.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

(13) Intangible assets

	Trademarks	Software	Customer relationship	Patents, IPs and others	Goodwill	Total
Cost:						
As of January 1, 2017	\$ 772,487	\$ 2,015,534	\$ 5,114,146	\$ 8,716,232	\$ 63,386,805	\$ 80,005,204
Additions-acquired separately	-	667,551	-	3,342,150	-	4,009,701
Additions-acquired through business combinations	-	63,268	-	12,813	2,964,519	3,040,600
Disposals	-	(377)	-	(3,588,179)	-	(3,588,556)
Transfers	-	-	-	-	64,130	64,130
Exchange differences	-	(2,795)	-	(149,933)	(35,559)	(188,287)
As of March 31, 2017	<u>\$ 772,487</u>	<u>\$ 2,743,181</u>	<u>\$ 5,114,146</u>	<u>\$ 8,333,083</u>	<u>\$ 66,379,895</u>	<u>\$ 83,342,792</u>
As of January 1, 2016	\$ 772,487	\$ 1,780,819	\$ 5,106,265	\$ 8,560,262	\$ 63,402,900	\$ 79,622,733
Additions-acquired separately	-	102,533	-	19,122	-	121,655
Transfers	-	2,400	-	-	-	2,400
Exchange differences	-	111	-	(35,831)	(14,300)	(50,020)
As of March 31, 2016	<u>\$ 772,487</u>	<u>\$ 1,885,863</u>	<u>\$ 5,106,265</u>	<u>\$ 8,543,553</u>	<u>\$ 63,388,600</u>	<u>\$ 79,696,768</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, 2017	\$ 279,595	\$ 1,549,914	\$ 1,441,288	\$ 4,719,853	\$ -	\$ 7,990,650
Amortization	28,150	87,787	160,014	616,672	-	892,623
Disposals	-	(377)	-	(3,588,179)	-	(3,588,556)
Exchange differences	-	2,227	-	(60,071)	-	(57,844)
As of March 31, 2017	<u>\$ 307,745</u>	<u>\$ 1,639,551</u>	<u>\$ 1,601,302</u>	<u>\$ 1,688,275</u>	<u>\$ -</u>	<u>\$ 5,236,873</u>
As of January 1, 2016	\$ 166,996	\$ 1,138,028	\$ 801,037	\$ 2,085,999	\$ -	\$ 4,192,060
Amortization	28,150	119,467	159,817	625,579	-	933,013
Exchange differences	-	778	-	(15,760)	-	(14,982)
As of March 31, 2016	<u>\$ 195,146</u>	<u>\$ 1,258,273</u>	<u>\$ 960,854</u>	<u>\$ 2,695,818</u>	<u>\$ -</u>	<u>\$ 5,110,091</u>
Net carrying amount as of:						
March 31, 2017	<u>\$ 464,742</u>	<u>\$ 1,103,630</u>	<u>\$ 3,512,844</u>	<u>\$ 6,644,808</u>	<u>\$ 66,379,895</u>	<u>\$ 78,105,919</u>
December 31, 2016	<u>\$ 492,892</u>	<u>\$ 465,620</u>	<u>\$ 3,672,858</u>	<u>\$ 3,996,379</u>	<u>\$ 63,386,805</u>	<u>\$ 72,014,554</u>
March 31, 2016	<u>\$ 577,341</u>	<u>\$ 627,590</u>	<u>\$ 4,145,411</u>	<u>\$ 5,847,735</u>	<u>\$ 63,388,600</u>	<u>\$ 74,586,677</u>

**MEDIATEK INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(14) 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, 2016. The Company did not identify any impairment of goodwill for the year ended December 31, 2016.

**(15) Long-term lease receivables**

The Company had entered into machinery lease agreements in 2016, which was accounted for as a finance lease, and the lease term was from May 27, 2016 to December 31, 2019. The Company terminated the finance lease agreements in advance in the first quarter of 2017, and transferred ownership of lease machinery to the lessee. The Company did not recognize any gains and losses due to termination of the agreements. The details of long-term lease receivables as of December 31, 2016 are as follows:

	Gross investment in the lease	Unrealized finance income	Present value of unguaranteed residual value	Present value of minimum lease payments receivables
Not later than one year	\$ -	\$ -	\$ -	\$ -
Later than one year but not later than five years	222,264	11,127	-	211,137
Total	<u>\$ 222,264</u>	<u>\$ 11,127</u>	<u>\$ -</u>	<u>\$ 211,137</u>

Estimated unguaranteed residual value of finance lease is NT\$0.

There were no long-term lease receivables for the three months ended March 31, 2017 and 2016.

**MEDIATEK INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(16) Short-term borrowings**

	March 31, 2017	December 31, 2016	March 31, 2016
Unsecured bank loans	\$ 60,828,192	\$ 54,523,984	\$ 48,025,807
Interest rates	1.16~1.94%	0.85~1.94%	0.75~2.22%

**(17) Other payables**

	March 31, 2017	December 31, 2016	March 31, 2016
Accrued salaries and bonuses	\$ 15,428,731	\$ 19,205,041	\$ 12,767,255
Accrued royalties	2,041,925	2,208,453	1,572,831
Others	13,815,906	12,524,501	14,208,340
Total	\$ 31,286,562	\$ 33,937,995	\$ 28,548,426

**(18) Long-term borrowings**

Details of long-term loans as of March 31, 2017 are as follows:

Lenders	As of March 31, 2017	Interest Rate (%)	Maturity date and terms of repayment
Unsecured Long-Term Loan from Mega International Commercial Bank	\$ 15,000	1.79%	Effective from May 10, 2018, principle is repaid in 21 quarterly payments with monthly interest payment.
Secured Long-Term Loan from Mega International Commercial Bank	109,286	1.79%	Effective from May 10, 2018, principle is repaid in 21 quarterly payments with monthly interest payment.
Secured Long-Term Loan from Shin Kong Bank	294,800	1.40%	Effective from October 30, 2017, principle is repaid in 16 semi-annually payments with monthly interest payment.
Total	419,086		
Less: current portion	(18,425)		
Noncurrent portion	\$ 400,661		

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

Details of long-term loans as of December 31, 2016 are as follows:

Lenders	As of		Maturity date and terms of repayment
	December 31, 2016	Interest Rate (%)	
Unsecured Long-Term Loan from Mega International Commercial Bank	\$ 15,000	1.79%	Effective from May 10, 2018, principle is repaid in 21 quarterly payments with monthly interest payment.
Secured Long-Term Loan from Mega International Commercial Bank	109,286	1.79%	Effective from May 10, 2018, principle is repaid in 21 quarterly payments with monthly interest payment.
Secured Long-Term Loan from Shin Kong Bank	294,800	1.40%	Effective from October 30, 2017, principle is repaid in 16 semi-annually payments with monthly interest payment.
Total	419,086		
Less: current portion	(18,425)		
Noncurrent portion	<u>\$ 400,661</u>		

Details of long-term loans as of March 31, 2016 are as follows:

None

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

**(19) Post-employment benefits plans**Defined contribution plan

MTK and its domestic subsidiaries adopt a defined contribution plan in accordance with the Labor Pension Act of the R.O.C. MTK and its domestic subsidiaries have made monthly contributions of 6% of each individual employee's salaries or wages to employees' pension accounts. Subsidiaries located in the People's Republic of China will contribute social welfare benefits based on a certain percentage of employees' salaries or wages to the employees' individual pension accounts. Pension benefits for employees of foreign subsidiaries are provided in accordance with the local regulations.

Pension expenses under the defined contribution plan for the three months ended March 31, 2017 and 2016 were NT\$414,426 thousand and NT\$379,349 thousand, respectively.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

Defined benefits plan

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

Pension expenses under the defined benefits plan for the three months ended March 31, 2017 and 2016 were NT\$6,281 thousand and NT\$5,961 thousand, respectively.

(20) Equity

A. Share capital

MTK's authorized capital as of March 31, 2017, December 31, 2016, and March 31, 2016 was NT\$20,000,000 thousand, divided into 2,000,000,000 shares (including 20,000,000 shares reserved for exercise of employee stock options at each period), each at a par value of NT\$10. MTK's issued capital was NT\$15,821,119 thousand, NT\$15,821,122 thousand, and NT\$15,715,837 thousand, divided into 1,582,111,907 shares, 1,582,112,191 shares, and 1,571,583,686 shares as of March 31, 2017, December 31, 2016, and March 31, 2016, respectively. Each share has one voting right and a right to receive dividends.

On June 24, 2016, the general shareholders' meeting approved to issue restricted stocks for employees. 10,528,221 shares of restricted stocks for employees were issued as of March 31, 2017. Relevant regulators' approvals have been obtained and related registration processes have been completed.

The Company redeemed and cancelled 284 shares of issued restricted stocks for employees in the first quarter of 2017. The record date of capital reduction was on March 22, 2017. Relevant regulators' approvals have been obtained and related registration processes have been completed.

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

	March 31, 2017	December 31, 2016	March 31, 2016
Additional paid-in capital	\$ 85,867,533	\$ 85,867,533	\$ 85,867,533
Treasury share transactions	1,455,706	1,455,706	1,369,971
The differences between the fair value of the consideration paid or received from acquiring or disposing subsidiaries and the carrying amounts of the subsidiaries	81,955	-	142,643
Changes in ownership interests in subsidiaries	1,244,843	176,894	237,267
Donated assets	1,261	1,261	1,261
From share of changes in net assets of associates	5,173	29,475	81,858
Employee stock options	503,521	513,409	509,857
Restricted stocks for employees	1,660,019	1,660,064	-
Others	111,014	111,014	111,014
Total	<u>\$ 90,931,025</u>	<u>\$ 89,815,356</u>	<u>\$ 88,321,404</u>

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

**C. Treasury shares**

As of March 31, 2017, December 31, 2016, and March 31, 2016, 7,794,085 shares of MTK's common shares amounting to NT\$55,970 thousand were held by the subsidiary, MediaTek Capital Corp. These shares held by MediaTek Capital Corp. were acquired for the purpose of financing before the amendment of the Company Act on November 12, 2001.

As of March 31, 2017, December 31, 2016, and March 31, 2016, MTK did not hold any other treasury shares.



**MEDIATEK INC. AND SUBSIDIARIES**

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

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

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

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

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

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

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

The appropriations of earnings for 2016 were resolved by the board of directors' meeting on April 28, 2017, subject to the resolution of general shareholders' meeting which will be held on June 15, 2017. The appropriations of earnings for 2015 were resolved by the general shareholders' meeting on June 24, 2016. The details of the distribution are as follows:

	Appropriation of earnings		Dividends per share (NT\$)	
	2016	2015	2016	2015
Legal reserve	\$ 2,370,060	\$ 2,595,843	-	-
Cash dividends-common stock	12,652,827	17,287,421	\$ 8.00	\$ 11.00
Total	<u>\$ 15,022,887</u>	<u>\$ 19,883,264</u>		

In addition, the board of directors' meeting resolved to distribute the paid in capital by cash in the amount of NT\$2,372,405 thousand, NT\$1.5 per share.

**E. Non-controlling interests**

	Three months ended March 31	
	2017	2016
Beginning balance	\$ 1,883,968	\$ 6,659,159
(Losses) Gains attributable to non-controlling interests	(63,107)	109,990
Other comprehensive income (losses), attributable to non-controlling interests, net of tax:		
Exchange differences resulting from translating the financial statements of foreign operations	(45,054)	7,594
Unrealized gains (losses) from available-for-sale financial assets	-	(3,221)
Changes in ownership interests in subsidiaries	790,606	81,580
Acquisition through business combinations	719,435	-
Others	(478,324)	-
Ending balance	<u>\$ 2,807,524</u>	<u>\$ 6,855,102</u>

**(21) 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 December 2007, July 2009, May 2010, August 2011, August 2012 and August 2013, MTK was authorized by the FSC, Executive Yuan, to issue employee stock options of 5,000,000 units, 3,000,000 units, 3,500,000 units, 3,500,000 units, 3,500,000 units and 3,500,000 units, respectively, each unit eligible to subscribe for one common share. The options may be granted to qualified employees of MTK or any of its domestic or foreign subsidiaries, in which MTK's shareholding with voting rights, directly or indirectly, is more than fifty percent. The options are valid for ten years and exercisable at certain percentage subsequent to the second anniversary of the granted date. Under the terms of the plan, the options are granted at an exercise price equal to the closing price of MTK's common shares listed on the Taiwan Stock Exchange Corporation ("TWSE") on the grant date.

Detail information relevant to the share-based payment plan as of March 31, 2017 is as follows:

Date of grant	Total number of options granted	Total number of options outstanding	Shares available for option holders	Exercise price (NT\$) (Note)
2008.03.31	1,134,119	239,755	239,755	\$ 355.6
2008.08.28	1,640,285	419,656	419,656	342.2
2009.08.18	1,382,630	502,681	502,681	426.6
2010.08.27	1,605,757	637,183	637,183	402.1
2010.11.04	65,839	8,134	8,134	374.5
2011.08.24	2,109,871	1,105,121	1,105,121	275.6
2012.08.14	1,346,795	882,277	882,277	284.9
2013.08.22	1,436,343	1,101,239	670,058	365.6

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

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

	Employee Stock Option
Expected dividend yield (%)	2.43%~6.63%
Expected volatility (%)	32.9%~50.06%
Risk free interest rate (%)	0.93%~2.53%
Expected life (Years)	6.5 years

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

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

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

Employee Stock Option	Three months ended March 31			
	2017		2016	
	Options	Weighted-average Exercise Price	Options	Weighted-average Exercise Price
	(Unit)	per Share (NT\$)	(Unit)	per Share (NT\$)
Outstanding at beginning of period	4,919,247	\$ 339.4	5,457,731	\$ 341.8
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited (Expired)	(23,201)	356.4	(160,169)	337.6
Outstanding at end of period	<u>4,896,046</u>	339.3	<u>5,297,562</u>	341.9
Exercisable at end of period	<u>4,464,865</u>		<u>4,084,311</u>	
Weighted-average fair value of options granted during the period (in NT\$)	\$ -		\$ -	

The information on the outstanding share-based payment plan as of March 31, 2017 and 2016 is as follows:

Date of grant	Range of Exercise Price (NT\$)	March 31, 2017		March 31, 2016	
		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\$)
		Years		Years	
2007.12.19	\$ 342.2~355.6	-	\$ 347.1	-	\$ 349.5
2009.07.27	426.6	-	426.6	-	429.5
2010.05.10	374.5~402.1	-	401.8	0.92	404.2
2011.08.09	275.6	0.92	275.6	1.92	277.4
2012.08.09	284.9	1.88	284.9	2.88	286.8
2013.08.09	365.6	2.92	365.6	3.92	368.0

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

Restricted stocks plan for employees of MTK

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

MTK has issued 10,528,505 gratuitous restricted stocks on September 6, 2016. The issuance process was granted effective registration by the securities authority. 284 shares of the aforementioned issued stocks were redeemed and cancelled due to the employee's failure to meet the vesting conditions.

The fair value of the restricted stocks issued was NT\$254.5 per share. The estimated compensation expenses amounted to NT\$1,765,302 thousand in total based on the vesting conditions and will be recognized during the vesting period. As of March 31, 2017, accumulated expenses amounted to NT\$506,299 thousand and unearned employee compensation amounted to NT\$1,259,003 thousand were recorded under salary expense and other equity, respectively.

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

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

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

	Three months ended March 31, 2017
January 1, 2017	10,528,505
Granted (share)	-
Cancelled (share)	(284)
March 31, 2017	10,528,221

Share-based payment plans of Subsidiaries

In November 2014, board of directors of EcoNet (Cayman) Inc. resolved to issue employee stock options with a total number of 1,235,388 units, each unit eligible to subscribe for one common share of EcoNet (Cayman) Inc. The options may be granted to qualified employees of EcoNet (Cayman) Inc. and its subsidiaries. 152,682 units of stock options were granted on January 31, 2015. The total numbers of outstanding stock options were 846,279 units and 872,036 units as of March 31, 2017 and 2016, respectively.

Subsidiaries Cash-settled Share-based Payment Transactions

The Company acquired 51% shares of Richtek on October 7, 2015 and Richtek was included in the consolidated entities thereafter. On March 24, 2014, the board of directors of Richtek resolved to issue a cash-settled share-based payment plan (share appreciation rights plan). The options may be granted to certain qualified employees of Richtek and its domestic and foreign subsidiaries. The options are valid for three years and are exercisable at an accumulated percentage subsequent to the grant date. Richtek will pay the intrinsic value in cash once the employees exercise the options.

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

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

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

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

	Unit (in thousand)	Weighted average exercise price per Share (NT\$)
January 1, 2017	12	\$ 195
Granted	-	-
Exercised	(12)	195
Forfeited (Expired)	-	-
Outstanding at end of period	-	-
Exercisable at end of period	-	-

The abovementioned exercised price would be adjusted in accordance with the plan when the issuance of cash dividend and the appropriations of earnings happened.

On April 29, 2016, subsidiary of Hsu-Si Investment paid NT\$195 in cash per share for the rest of Richtek's outstanding shares. After Hsu-Si Investment acquired 100% of Richtek's shares, Richtek was delisted from TWSE. On November 9, 2015, the board of directors of Richtek resolved to revise the share appreciation rights plan. The revision of content was to acquire employee's stocks by using NT\$195 per share after the date Richtek was delisted from TWSE to substitute closing price at the date of exercise for paying intrinsic value to employee. Please refer to Note 6. (30) for relevant information for the merger with Richtek Technology Corp.

Share-based payment plans of Subsidiaries

On April 15, 2014, board of directors of Airoha resolved to issue employee stock options with a total number of 2,000 units, each unit eligible to subscribe for one thousand common share of Airoha. 1,797 units of stock options were granted on October 26, 2016. The total numbers of outstanding stock options were 1,797 units as of March 31, 2017.

Share-based compensation expenses recognized (reversed) for employee services received for the three months ended March 31, 2017 and 2016, are shown in the following table:

	Three months ended March 31	
	2017	2016
Employee stock options	\$ (9,888)	\$ 7,993
Restricted stocks for employees	216,977	-
Share appreciation rights plan	-	2,512
Total	\$ 207,089	\$ 10,505

The Company did not modify or cancel the share-based payment plan for the three months ended March 31, 2017 and 2016.

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

## (22) Sales

	Three months ended March 31	
	2017	2016
Sale of goods	\$ 60,697,292	\$ 62,955,310
Other operating revenues	658,415	352,668
Less: Sales returns and discounts	(5,272,986)	(7,402,492)
Net sales	<u>\$ 56,082,721</u>	<u>\$ 55,905,486</u>

## (23) Summary statement of employee benefits, depreciation and amortization expenses by function for the three months ended March 31, 2017 and 2016:

	Three months ended March 31					
	2017			2016		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Pension	\$ 6,793	\$ 413,914	\$ 420,707	\$ 4,198	\$ 381,112	\$ 385,310
Others	\$ 166,595	\$ 10,490,426	\$ 10,657,021	\$ 155,926	\$ 9,218,151	\$ 9,374,077
Depreciation	\$ 52,357	\$ 793,213	\$ 845,570	\$ 31,654	\$ 694,127	\$ 725,781
Amortization	\$ 178	\$ 892,445	\$ 892,623	\$ 174	\$ 932,839	\$ 933,013

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 three months ended March 31, 2017, and 2016. 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\$80,229 thousand and NT\$10,831 thousand for the three months ended March 31, 2017, respectively. The amounts of employees' compensation and remunerations to directors were NT\$57,653 thousand and NT\$7,783 thousand for the three months ended March 31, 2016, respectively. The employees' compensation and remuneration to directors was 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 at a Board of Directors' meeting held on March 22, 2017 to distribute NT\$309,130 thousand and NT\$42,661 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 2016.

There were no material differences between the actual distribution amounts of employees' compensation and remuneration to directors and the amounts charged against earnings in 2015.

**(24) Other income**

	Three months ended March 31	
	2017	2016
Interest income	\$ 512,648	\$ 617,646
Rental income	30,350	12,749
Dividend income	15,994	102,902
Others	28,539	39,570
Total	<u>\$ 587,531</u>	<u>\$ 772,867</u>

**(25) Other gains and losses**

	Three months ended March 31	
	2017	2016
Losses on disposal of property, plant and equipment	\$ (2,019)	\$ (3,428)
Gains (losses) on disposal of investments		
Non-current assets held for sale	5,123,575	-
Available-for-sale financial assets	(44,861)	17,846
Investments accounted for using the equity method	1,487,066	-
Foreign exchange (losses) gains	(455,032)	71,310
Impairment losses		
Available-for-sale financial assets	(63,520)	-
Financial assets measured at cost	(269,673)	(5,257)
Gain on financial assets at fair value through profit or loss	199,677	19,711
Others	(140,879)	8,378
Total	<u>\$ 5,834,334</u>	<u>\$ 108,560</u>

**(26) Finance costs**

	Three months ended March 31	
	2017	2016
Interest expenses on borrowings	<u>\$ 159,849</u>	<u>\$ 134,483</u>

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

(27) Components of other comprehensive income

For the three months ended March 31, 2017 :

		Reclassification	Other	Income tax	
	Arising during	adjustments	comprehensive	relating to	
	the period	during the period	income,	components of	Other
			before tax	other	comprehensive
				comprehensive	income,
				income	net of tax
Not to be reclassified to profit or loss:					
Remeasurements of the defined benefit plan	\$ 14	\$ -	\$ 14	\$ -	\$ 14
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	(4,939,104)	-	(4,939,104)	-	(4,939,104)
Unrealized gains (losses) from available-for-sale financial assets	4,674,185	108,381	4,782,566	(549,416)	4,233,150
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	2,498	-	2,498	-	2,498
Total of other comprehensive income	\$ (262,407)	\$ 108,381	\$ (154,026)	\$ (549,416)	\$ (703,442)

**MEDIATEK INC. AND SUBSIDIARIES**

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

For the three months ended March 31, 2016 :

			Other	Income tax relating to components of	Other
	Reclassification		comprehensive	other	comprehensive
Arising during	adjustments		income,	comprehensive	income,
the period	during the period		before tax	income	net of tax
<hr/>					
To be reclassified to profit or					
loss in subsequent periods:					
Exchange differences resulting					
from translating the financial					
statements of foreign					
operations	\$ (1,865,958)	\$ -	\$ (1,865,958)	\$ -	\$ (1,865,958)
Unrealized gains (losses) from					
available-for-sale financial					
assets	117,498	(17,846)	99,652	(18,822)	80,830
Share of other comprehensive					
income of associates and					
joint ventures accounted for					
using the equity method	13,562	-	13,562	-	13,562
<hr/>					
Total of other comprehensive					
income	\$ (1,734,898)	\$ (17,846)	\$ (1,752,744)	\$ (18,822)	\$ (1,771,566)
<hr/>					

**MEDIATEK INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**  
**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(28) Income tax**

The major components of income tax expense are as follows:

	Three months ended March 31	
	2017	2016
Current income tax expense:		
Current income tax charge	\$ 1,352,764	\$ 745,724
Deferred tax expense (income):		
Deferred tax (income) expense relating to origination and reversal of temporary differences	(437,365)	721,206
Deferred tax expense (income) relating to origination and reversal of tax loss and tax credit	9,216	(63,493)
Deferred tax expense arising from write-down or reversal of write-down of deferred tax asset	(19,135)	(596,487)
Others	(43,523)	(1,750)
Total income tax expense	<u>\$ 861,957</u>	<u>\$ 805,200</u>

Income tax recognized in other comprehensive income

	Three months ended March 31	
	2017	2016
Deferred tax expense:		
Unrealized gains on available-for-sale financial assets	<u>\$ 549,416</u>	<u>\$ 18,822</u>

Integrated income tax information

	March 31, 2017	December 31, 2016	March 31, 2016
Balance of the imputation credit account	<u>\$ 9,743,192</u>	<u>\$ 9,743,192</u>	<u>\$ 9,546,658</u>

The estimated and actual creditable ratios for 2016 and 2015 were 11.22% and 10.76%, respectively.

MTK's earnings generated prior to December 31, 1997 have been fully appropriated.

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

As of March 31, 2017, the assessment of the income tax returns of MTK and its material subsidiaries are as follows:

	The assessment of income tax returns	Notes
MTK	Assessed and approved up to 2013	(Notes 1 and 2)
Subsidiary- MStar Semiconductor Inc.	Assessed and approved up to 2014	
Subsidiary- Hsu-Ta Investment Corp.	Assessed and approved up to 2015	
Subsidiary- Hsu-Si Investment Corp.	Applied up to 2015	
Subsidiary- Richtek Technology Corp.	Assessed and approved up to 2014	

Note 1: MTK has applied for administrative appeals of the tax returns of 2012, 2011, 2010, 2009 and 2008. MTK disagreed with the decision made in the tax assessment notices. The Company has paid in full the additional taxes assessed by the tax authorities.

Note 2: Ralink Technology Corp. has applied for administrative appeal of the tax return of 2013. MTK disagreed with the decision made in the tax assessment notices. The Company has paid in full the additional taxes assessed by the tax authorities.

**(29) 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 March 31	
	2017	2016
A. Basic earnings per share		
Profit attributable to ordinary equity owners of the parent (in thousand NT\$)	\$ 6,702,264	\$ 4,362,997
Weighted average number of ordinary shares outstanding for basic earnings per share (share)	1,563,789,601	1,563,789,601
Basic earnings per share (NT\$)	\$ 4.29	\$ 2.79

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

	Three months ended March 31	
	2017	2016
B. Diluted earnings per share		
Profit attributable to ordinary equity owners of the parent (in thousand NT\$)	\$ 6,702,264	\$ 4,362,997
Weighted average number of ordinary shares outstanding for basic earnings per share (share)	1,563,789,601	1,563,789,601
Effect of dilution:		
Employees' compensation-stock (share)	1,567,865	1,395,144
Employee stock options (share) (Note)	-	-
Restricted stocks for employees (share)	4,777,549	-
Weighted average number of ordinary shares outstanding after dilution (share)	1,570,135,015	1,565,184,745
Diluted earnings per share (NT\$)	\$ 4.27	\$ 2.79

Note: There were no dilutive employee stock options for the three months ended March 31, 2017, and 2016.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date the financial statements were authorized for issue.

**(30) Business combinations**The merger with Richtek Technology Corp.

Subsidiary Hsu-Ta Investment Corp. established Hsu-Si Investment in September 2015. On September 7, 2015, the board of directors of Hsu-Si Investment approved a tender offer for shares of Richtek. The terms of the offer was NT\$195 in cash for each common share of Richtek. Hsu-Si Investment completed the tender offer and paid NT\$14,770,046 thousand in cash to acquire 51% of the shares of Richtek on October 7, 2015. The share-swap agreement was approved by the extraordinary shareholders' meeting of Richtek and the board of directors of Hsu-Si Investment (on behalf of its shareholders' meeting) on March 3, 2016. Hsu-Si Investment would pay NT\$195 in cash per share for the rest of 49% shares of Richtek. Consequently, the ownership interest in Richtek changed but control over it remained. The difference between the cash payment to the non-controlling shareholders' common shares and the carrying amount of Richtek's 49% shares was recorded in equity. On April 29, 2016, the share-swap date, Richtek was delisted from the TWSE and became a wholly owned subsidiary of Hsu-Si Investment.

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

Richtek is an international analog IC design company and its products are mainly applied to notebook, consumer end products, network communication devices, panel displays, etc. The Company is a global leader in IC design, with focus on wireless communications, digital media, etc., and a market leader in cutting-edge systems on a chip for wireless communications, HDTV, ODD, DVD and Blu-ray. Products of the Company and Richtek are applied in similar end applications and are highly complementary to each other. The merger would provide customers with greater convenience in sourcing, and create scale for the Group in enhancing overall competitiveness and performance.

The Company has measured the non-controlling interest of Richtek at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

The fair values of the identifiable assets and liabilities of Richtek as of the acquisition date were:

	Fair value recognized on the acquisition date
Cash and cash equivalents	\$ 1,743,522
Current assets	5,598,331
Funds and investments	116,005
Property, plant and equipment	3,653,938
Intangible assets - patent, trademark and customer relationship	3,935,255
Other non-current assets	453,858
	<u>15,500,909</u>
Current liabilities	(2,758,580)
Other non-current liabilities	(48,120)
	<u>(2,806,700)</u>
Fair value of identifiable net assets	<u>\$ 12,694,209</u>
Goodwill of Richtek is as follows:	Amount
Cash consideration	\$ 14,770,046
Add: non-controlling interest	6,220,162
Less: identifiable net assets at fair value	(12,694,209)
Goodwill	<u>\$ 8,295,999</u>
Cash flows on acquisition:	Amount
Net cash acquired from the subsidiary	\$ 1,743,522
Transaction costs attributable to cash paid	(14,770,046)
Net cash flow-out on acquisition	<u>\$ (13,026,524)</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 goodwill of NT\$8,295,999 thousand comprises the value of expected synergies arising from acquisition.

The merger with ILI Technology Corp.

Subsidiary MStar Semiconductor, Inc. (“MStar Taiwan”) established Mrise Tech. in July 2015. The merger of Mrise Tech. and ILI Tech. was approved by the extraordinary shareholders’ meeting of ILI Tech. and the board of directors of Mrise Tech. (on behalf of its shareholders’ meeting) on October 26, 2015. The terms of the tender offer were NT\$51 in cash for each common share of ILI Tech. Mrise Tech. would be the surviving company after the merger and renamed ILI Technology Corp. In April 2016, the merger was approved by the Ministry of Commerce of the People's Republic of China. In addition, on April 14, 2016, both companies’ board of directors approved the merger date to be June 1, 2016.

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

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

	Fair value recognized on the acquisition date
Cash and cash equivalents	\$ 1,236,304
Current assets	3,051,349
Property, plant and equipment	905,525
Intangible assets- patent, trademark and customer relationship	96,915
Other non-current assets	81,298
	<u>5,371,391</u>
Current liabilities	(1,788,459)
Other non-current liabilities	(4,541)
	<u>(1,793,000)</u>
Fair value of identifiable net assets	<u>\$ 3,578,391</u>



**MEDIATEK INC. AND SUBSIDIARIES**

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

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

Goodwill of ILI Tech. is as follows:	Amount
Cash consideration	\$ 3,642,682
Less: identifiable net assets at fair value	(3,578,391)
Goodwill	<u>\$ 64,291</u>

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

The goodwill of NT\$64,291 thousand comprises the value of expected synergies arising from acquisition.

If the combination had taken place on January 1, 2016, revenues and net income of the Company for the three months ended March 31, 2016 would have been NT\$57,644,126 thousand and NT\$4,494,267 thousand, respectively.

The merger with Airoha Technology Corp.

On February 10, 2017, the board of directors of subsidiary of Hsu-Si Investment approved a tender offer to acquire shares of Airoha. The terms of the offer was NT\$110 in cash for each common share of Airoha. Hsu-Si Investment completed the tender offer and paid NT\$2,665,368 thousand in cash to acquire 40% of the shares of Airoha on March 14, 2017. The original 26% interest of Airoha acquired before the acquisition of de facto control was remeasured at fair value and the difference was recognized as a gain.

Airoha is a domestic IC design company and specialized in the design and sale of highly integrated circuits for wireless communication. Its products are mainly applied to cell phones, digital TVs and set-top boxes, Bluetooth HID devices, audio accessories, and wearables. The Company is a global leader in IC design, with focus on wireless communications, digital media, etc., and a market leader in cutting-edge systems on a chip for wireless communications, HDTV, DVD and Blu-ray. Considering the Company's expansion strategy of Internet of Things market, products of the Company and Airoha are applied in similar end applications and are highly complementary to each other. The merger would provide customers with greater convenience in sourcing, and create scale for the Group in enhancing overall competitiveness and performance.

The Company has measured the non-controlling interest of Airoha at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

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

The fair values of the identifiable assets and liabilities of Airoha as of the acquisition date were:

	Fair value recognized on the acquisition date
Cash and cash equivalents	\$ 1,399,093
Current assets	1,360,879
Property, plant and equipment	87,416
Intangible assets - patent, trademark and customer relationship	76,081
Other non-current assets	57,585
	<u>2,981,054</u>
Current liabilities	(1,050,070)
Other non-current liabilities	(16,113)
	<u>(1,066,183)</u>
Fair value of identifiable net assets	<u>\$ 1,914,871</u>

Goodwill of Airoha is as follows:	Amount
Cash consideration (Note)	\$ 2,455,624
Fair value of equity interest in Airoha originally held by the Company	1,704,331
Add: non-controlling interest	719,435
Less: identifiable net assets at fair value	(1,914,871)
Goodwill	<u>\$ 2,964,519</u>

Note: Hsu-Si Investment acquired 37% of Airoha's common shares from third parties by paying NT\$2,455,624 thousand. In addition, Hsu-Si Investment paid NT\$209,744 thousand to Hsu-Ta Investment Corp. to obtain 3% of Airoha's common shares.

Cash flows on acquisition:	Amount
Net cash acquired from the subsidiary	\$ 1,399,093
Transaction costs attributable to cash paid	(2,455,624)
Net cash flow-out on acquisition	<u>\$ (1,056,531)</u>

The identifiable net assets recognized in the consolidated financial statements as of March 31, 2017 were based on a provisional assessment of fair value as the Company had sought an independent valuation for the net assets owned by Airoha. The results of this valuation had not been received at the issuance date of the financial statements. There could be adjustments on the assessment upon finalizing the valuation report.

The goodwill of NT\$2,964,519 thousand comprises the value of expected synergies arising from acquisition.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

From the acquisition date to March 31, 2017, Airoha has contributed NT\$267,552 thousand of revenue and NT\$10,950 thousand to the net losses of the Company.

If the combination had taken place on January 1, 2017, revenues and net income of the Company for the three months ended March 31, 2017 would have been NT\$56,927,321 thousand and NT\$6,617,604 thousand, respectively.

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

On May 13, 2016, the Company's board of directors approved to sell the shares of AutoChips Inc. ("AutoChips") to NavInfo Co. Ltd., in the transaction price approximately to US\$497 million dollars. The Company then reclassified AutoChips' assets and liabilities to non-current assets held for sale as a disposal group. Assets and liabilities reclassified to non-current assets held for sale as a disposal group as of December 31, 2016 mainly consisted of:

	<u>As of December 31, 2016</u>
Non-current assets held for sale	
Cash and cash equivalents	\$ 788,258
Available-for-sale financial assets-current	1,012,974
Debt instrument investments for which no active market exists-current	1,012,974
Trade receivables, net	269,335
Other receivables	265,856
Inventories, net	196,038
Prepayments	29,664
Property, plant and equipment	47,197
Intangible assets	9,586
Refundable deposits	1,844
	<u>3,633,726</u>
Liabilities directly associated with non-current assets held for sale	
Trade payables	(150,731)
Trade payables to related parties	(10,310)
Other payables	(424,202)
Current tax liabilities	(31,111)
Other current liabilities	(58,689)
	<u>(675,043)</u>
Net carrying amount of the disposal group	<u>\$ 2,958,683</u>

The Company has transferred the shareholding rights of AutoChips Inc. and derecognized it in March 2017.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

(32) Changes in ownership interests in subsidiaries

Changes in ownership of subsidiaries

Nephos (Hefei) Co. Ltd. and Richnex Microelectronics Corp. increased its capital by cash in the three-month period ended March 31, 2017, and the Company did not subscribe new shares in proportionate to its original ownership interest. Consequently, the ownership interest in both companies changed but control over both companies remained. The difference between the fair value of purchased equity investments and the increase in the non-controlling interest was NT\$1,067,949 thousand and was recorded in equity.

AutoChips and EcoNet (Cayman) Inc. increased its capital by cash in the year ended December 31, 2016, and the Company did not subscribe new shares in proportionate to its original ownership interest. Consequently, the ownership interest in both companies changed but control over both companies remained. The difference between the fair value of purchased equity investments and the increase in the non-controlling interest for the three months ended March 31, 2016 and the year ended December 31, 2016 were NT\$39,575 thousand and NT\$99,948 thousand, respectively, and were recorded in equity.

(33) Subsidiaries that have material non-controlling interests

Richtek Technology Corp.

The Company paid NT\$195 in cash per share for the rest of 49% shares of Richtek Technology Corp. in 2016. Thereafter, the Company owned 100% ownership of Richtek Technology Corp. There is no subsidiary that has material non-controlling interests after the date of acquiring Richtek Technology Corp.'s remaining 49% shares. Therefore, the information of material non-controlling interests of subsidiaries is disclosed for the three months ended March 31, 2016 only.

Financial information of subsidiaries that have material non-controlling interests is provided below:

Proportion of equity interest held by non-controlling interests:

Name	Country of Incorporation and operation	March 31, 2016
Richtek	Taiwan	49%

Accumulated balances of material non-controlling interest:

	March 31, 2016
Richtek	\$ 6,102,261

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

Loss allocated to material non-controlling interest:

For the three months ended  
March 31, 2016

Richtek	\$ 89,445
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The summarized financial information of these subsidiaries is provided below. This information is based on amounts after inter-company eliminations.

Summarized information of profit or loss for the three months ended March 31, 2016:

	Richtek
Operating revenue	\$ 3,037,741
Loss for the period from continuing operations	\$ 183,154
Total comprehensive income for the period	\$ 164,630

Summarized information of financial position as at March 31, 2016:

	Richtek
Current assets	\$ 7,145,724
Non-current assets	\$ 8,094,624
Current liabilities	\$ 2,705,622
Non-current liabilities	\$ 79,597

Summarized cash flow information for the three months ended March 31, 2016:

	Richtek
Operating activities	\$ 670,205
Investing activities	\$ (174,971)
Financing activities	\$ (17,064)
Net increase in cash and cash equivalents	\$ 478,170

Airoha Technology Corp.

Financial information of subsidiaries that have material non-controlling interests is provided below:

Proportion of equity interest held by non-controlling interests:

Name	Country of Incorporation and operation	March 31, 2017
Airoha	Taiwan	38%

**MEDIATEK INC. AND SUBSIDIARIES**

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

Accumulated balances of material non-controlling interest:

	March 31, 2017
Airoha	\$ 712,321

Loss allocated to material non-controlling interest:

	For the three months ended March 31, 2017
Airoha	\$ (4,114)

The summarized financial information of these subsidiaries is provided below. This information is based on amounts after inter-company eliminations.

Summarized information of profit or loss for the period from March 14, 2017 to March 31, 2017:

	Airoha
Operating revenue	\$ 268,554
Loss for the period from continuing operations	\$ (10,950)
Total comprehensive income for the period	\$ (10,950)

Summarized information of financial position as at March 31, 2017:

	Airoha
Current assets	\$ 2,553,018
Non-current assets	\$ 3,194,540
Current liabilities	\$ 869,674
Non-current liabilities	\$ 17,398

Summarized cash flow information for the period from March 14, 2017 to March 31, 2017:

	Airoha
Operating activities	\$ (224,759)
Investing activities	\$ (12,084)
Financing activities	\$ -
Net decrease in cash and cash equivalents	\$ (233,741)

**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>
Airoha Technology Co., Ltd.	Associate (Note 1)
King Yuan Electronics Co., Ltd.	Substantive related party
Andes Technology Corp.	Substantive related party
JMicron Technology Corp.	Substantive related party (Note 2)

Note 1 : Airoha was no longer an associate after the Company obtained control over it on March 14, 2017.

Note 2 : JMicon Technology Corp. reelected its chairman on June 2, 2016 and became a non-related party since that day.

Significant transactions with the related parties

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

	<u>Three months ended March 31</u>	
	<u>2017</u>	<u>2016</u>
Other related parties		
King Yuan Electronics Co., Ltd.	\$ 741,667	\$ 624,610

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

(2) Consign research and development expenses and license expenses

	<u>Three months ended March 31</u>	
	<u>2017</u>	<u>2016</u>
Other related parties		
Andes Technology Corp.	\$ 21,794	\$ -

**MEDIATEK INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(3) Purchases**

	Three months ended March 31	
	2017	2016
Associates		
Airoha Technology Corp.	\$ -	\$ 1,946

The trade credit term for associates was 30 days. The trade credit term for third-party customers was 30 to 60 days.

**(4) Rental income**

	Three months ended March 31	
	2017	2016
Associates		
Airoha Technology Corp.	\$ 2,831	\$ 143
Other related parties		
Andes Technology Corp.	134	134
JMicron Technology Corp.	-	1,460
Subtotal	134	1,594
Total	\$ 2,965	\$ 1,737

NT\$876 thousand was received from other related parties - JMicon Technology Corp. and was accounted for as deposits received due to a lease of office space for the three months ended March 31, 2016.

**(5) Other receivables from related parties**

	March 31, 2017	December 31, 2016	March 31, 2016
Associates			
Airoha Technology Corp.	\$ -	\$ 3,003	\$ -

**(6) Trade payables to related parties**

	March 31, 2017	December 31, 2016	March 31, 2016
Associates			
Airoha Technology Corp.	\$ -	\$ 1,187	\$ -
Other related parties			
King Yuan Electronics Co., Ltd.	737,767	922,370	610,766
Total	\$ 737,767	\$ 923,557	\$ 610,766



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

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

	March 31, 2017	December 31, 2016	March 31, 2016
Other related parties			
King Yuan Electronics Co., Ltd.	\$ -	\$ 10,310	\$ -

(8) Key management personnel compensation

	Three months ended March 31	
	2017	2016
Short-term employee benefits (Note)	\$ 218,981	\$ 198,097
Share-based payment	72,497	681
Post-employment benefits	1,548	1,155
Total	\$ 293,026	\$ 199,933

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
	March 31, 2017	December 31, 2016	March 31, 2016	
Debt instrument investments for which no active market exists-current	\$ 9,180	\$ 9,180	\$ 9,180	Customs clearance deposits
Debt instrument investments for which no active market exists-current	9,705	9,705	-	Lease execution deposits
Debt instrument investments for which no active market exists-noncurrent	3,160	3,152	3,152	Customs clearance deposits
Debt instrument investments for which no active market exists-noncurrent	528	537	551	Customs clearance deposits
Debt instrument investments for which no active market exists-noncurrent	117	118	122	Lease execution 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
	March 31, 2017	December 31, 2016	March 31, 2016	
Debt instrument investments for which no active market exists-noncurrent	200,000	200,000	200,000	Project performance deposits
Debt instrument investments for which no active market exists-noncurrent	-	-	9,705	Lease execution deposits
Debt instrument investments for which no active market exists-noncurrent	-	-	10,000	Court pledged
Debt instrument investments for which no active market exists-noncurrent	24,157	24,157	23,929	Customs clearance deposits
Debt instrument investments for which no active market exists-noncurrent	22,964	22,964	15,714	Land lease guarantee
Debt instrument investments for which no active market exists-noncurrent	7,000	7,000	-	Land lease guarantee
Debt instrument investments for which no active market exists-noncurrent	1,000	-	-	Customs clearance deposits
Debt instrument investments for which no active market exists-noncurrent	3,171	-	-	Customs clearance deposits
Debt instrument investments for which no active market exists-noncurrent	9,694	-	-	Lease execution deposits
Property, plant and equipment - buildings	416,274	419,686	-	Long-term borrowing
Property, plant and equipment - buildings and land	335,310	336,578	-	Long-term borrowing
Total	<u>\$ 1,042,260</u>	<u>\$ 1,033,077</u>	<u>\$ 272,353</u>	

**MEDIATEK INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****9. Contingencies and Off Balance Sheet Commitments****(1) Operating lease commitments-the Company as lessee**

The Company has entered into commercial lease contracts with an average life of one to fifty years.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	March 31, 2017	December 31, 2016	March 31, 2016
Not later than one year	\$ 622,374	\$ 582,716	\$ 517,697
Later than one year but not later than five years	995,537	1,099,372	1,243,845
Later than five years	436,103	471,622	508,570
Total	<u>\$ 2,054,014</u>	<u>\$ 2,153,710</u>	<u>\$ 2,270,112</u>

Operating lease expenses are as follows:

	Three months ended March 31	
	2017	2016
Minimum lease payments	<u>\$ 201,213</u>	<u>\$ 224,360</u>

**(2) Legal claim contingency**

A. Optical Devices, LLC (“Optical Devices”) filed a complaint with the U.S. International Trade Commission (the “Commission”) against MTK and subsidiary MediaTek USA Inc. on September 3, 2013 alleging infringement of United States Patent No. 8,416,651. Optical Devices alleged that MTK’s optical disc drive chips infringe its patent and sought to prevent the accused products from being imported into the United States. The Commission issued an Initial Determination on July 17, 2014 finding that Optical Devices failed to meet the domestic industry requirement and terminating the investigation. On September 3, 2014, the Commission vacated the Initial Determination and remanded the case for further proceedings. On October 20, 2014, the Commission issued an Initial Determination to terminate the investigation on the ground that Optical Devices’ lack of standing. On December 4, 2014, the Commission partially vacated the Initial Determination and remanded a part of the case including the investigation against MTK for further proceedings. On April 27, 2015, the Commission issued an Initial Determination terminate the investigation on the ground of Optical Devices’ lack of standing. The Commission issued notice to affirm the Initial Determination with modified reasoning and terminated the investigation on June 9, 2015.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

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

B. Mariner IC Inc. ("Mariner") filed a complaint in the United States District Court for the Eastern District of Texas against MTK and subsidiary MediaTek USA Inc. on April 25, 2016, alleging infringement of United States Patent Nos. 5,560,666 and 5,846,874. The operations of MTK and subsidiary MediaTek USA Inc. would not be materially affected by this case.

C. Semcon IP Inc. ("Semcon") filed a complaint in the United States District Court for the Eastern District of Texas against MTK and subsidiary MediaTek USA Inc. on April 25, 2016, alleging infringement of United States Patent Nos. 7,100,061, 7,596,708, 8,566,627 and 8,806,247. The operations of MTK and subsidiary MediaTek USA Inc. would not be materially affected by this case.

D. ZiiLabs Inc. Ltd. ("ZiiLabs") filed a complaint with the Commission against MTK and subsidiary MediaTek USA Inc. on December 16, 2016 alleging infringement of United States Patent No. 6,677,952, 6,950,350, 7,518,616, 8,643,659. The operations of MTK and subsidiary MediaTek USA Inc. would not be materially affected by this case.

Also on December 16, 2016, ZiiLabs filed a complaint in the United States District Court for the Eastern District of Texas against MTK and subsidiary MediaTek USA Inc., alleging infringement of the above referenced patents. The operations of MTK and subsidiary MediaTek USA Inc. would not be materially affected by this case.

E. Advanced Micro Devices, Inc. and ATI Technologies ULC (collectively "AMD") filed a complaint with the Commission against MTK and subsidiary MediaTek USA Inc. on January 24, 2017 alleging infringement of United States Patent No. 7,633,506, 7,796,133, 8,760,454, and 9,582,846. The operations of MTK and subsidiary MediaTek USA Inc. would not be materially affected by this case.

F. Broadcom Corporation ("Broadcom") filed a complaint with the Commission against MTK and subsidiaries MediaTek USA Inc. and MStar Semiconductor Inc. on March 7, 2017 alleging infringement of United States Patent No. 8,284,844, 7,590,059, 8,068,171, 7,310,104, and 7,342,967. The operations of MTK and subsidiaries MediaTek USA Inc. and MStar Semiconductor Inc. would not be materially affected by this case.

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

Also on March 7, 2017, Broadcom filed a complaint in the United States District Court for the Central District of California against MTK and subsidiary MediaTek USA Inc., alleging infringement of United States Patent No. 8,284,844, 7,590,059, 7,310,104, and 7,342,967. The operations of MTK and subsidiary MediaTek USA Inc. would not be materially affected by this case.

The Company will handle these cases carefully.

**10. Losses due to Major Disasters**

None

**11. Significant Subsequent Events**

None

**12. Others****(1) Financial instruments****A. Categories of financial instruments**Financial assets

	March 31, 2017	December 31, 2016	March 31, 2016
Financial assets at fair value through profit or loss:			
Held for trading financial assets	\$ -	\$ 1,850	\$ 4,751
Financial assets designated upon initial recognition at fair value through profit or loss	5,560,952	6,965,745	9,316,440
Subtotal	5,560,952	6,967,595	9,321,191
Available-for-sale financial assets	32,428,615	28,343,391	16,785,963
Financial assets measured at cost	8,456,921	6,895,187	5,152,552
Held-to-maturity financial assets	-	-	1,514,130
Loans and receivables:			
Cash and cash equivalents (excluding cash on hand and petty cash)	139,144,144	140,555,221	155,956,212
Debt instrument investments for which no active market exists	1,595,124	1,763,420	1,579,912
Trade receivables	18,287,679	20,480,806	15,598,028
Other receivables	18,064,934	5,497,925	2,714,131
Subtotal	177,091,881	168,297,372	175,848,283
Total	\$ 223,538,369	\$ 210,503,545	\$ 208,622,119

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

	March 31, 2017	December 31, 2016	March 31, 2016
Financial liabilities at fair value through profit or loss:			
Held for trading financial liabilities	\$ 42,683	\$ 45,098	\$ -
Financial liabilities at amortized cost:			
Short-term borrowings	60,828,192	54,523,984	48,025,807
Trade payables (including related parties)	31,296,908	24,630,117	23,022,634
Other payables	31,286,562	33,937,995	28,548,426
Long-term payables (including current portion)	1,299,549	-	41,160
Long-term borrowings (including current portion)	419,086	419,086	-
Subtotal	125,130,297	113,511,182	99,638,027
Total	\$ 125,172,980	\$ 113,556,280	\$ 99,638,027

**B. Fair values of financial instruments**

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

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

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

**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 of financial instruments measured at amortized cost

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

	Carrying amount as of		
	March 31, 2017	December 31, 2016	March 31, 2016
Financial assets			
Held-to-maturity financial assets			
Bonds	\$ -	\$ -	\$ 1,514,130
	Fair value as of		
	March 31, 2017	December 31, 2016	March 31, 2016
Financial assets			
Held-to-maturity financial assets			
Bonds	\$ -	\$ -	\$ 1,499,399

## c. Fair value measurement hierarchy

## (a) Fair value measurement hierarchy

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

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

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

Level 3: Unobservable inputs for the assets or liabilities.

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

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

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

**MEDIATEK INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**As of March 31, 2017

	Level 1	Level 2	Level 3	Total
<u>Financial assets:</u>				
Financial assets at fair value				
through profit or loss				
Bonds	\$ 440,530	\$ -	\$ 638,003	\$ 1,078,533
Linked deposits	-	1,057,022	3,425,397	4,482,419
Available-for-sale financial assets				
Depository receipts	10,818	-	-	10,818
Stocks	2,296,533	17,998,539	32,701	20,327,773
Bonds	4,784,837	-	2,736,967	7,521,804
Funds	3,995,302	-	572,918	4,568,220
Total	<u>\$ 11,528,020</u>	<u>\$ 19,055,561</u>	<u>\$ 7,405,986</u>	<u>\$ 37,989,567</u>

Financial liabilities:

Financial liabilities at fair value

through profit or loss

Derivative financial instruments	\$ -	\$ 42,683	\$ -	\$ 42,683
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As of December 31, 2016

	Level 1	Level 2	Level 3	Total
<u>Financial assets:</u>				
Financial assets at fair value				
through profit or loss				
Bonds	\$ 464,598	\$ -	\$ 646,029	\$ 1,110,627
Derivative financial instruments	-	1,850	-	1,850
Linked deposits	-	2,047,501	3,807,617	5,855,118
Available-for-sale financial assets				
Depository receipts	23,314	-	-	23,314
Stocks	1,661,142	13,703,400	32,701	15,397,243
Bonds	5,496,637	-	2,306,190	7,802,827
Funds	4,330,073	-	789,934	5,120,007
Total	<u>\$ 11,975,764</u>	<u>\$ 15,752,751</u>	<u>\$ 7,582,471</u>	<u>\$ 35,310,986</u>

Financial liabilities:

Financial liabilities at fair value

through profit or loss

Derivative financial instruments	\$ -	\$ 45,098	\$ -	\$ 45,098
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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 March 31, 2016

	Level 1	Level 2	Level 3	Total
<u>Financial assets:</u>				
Financial assets at fair value through profit or loss				
Stocks	\$ 4,751	\$ -	\$ -	\$ 4,751
Bonds	-	-	1,691,436	1,691,436
Linked deposits	-	2,803,102	4,821,902	7,625,004
Available-for-sale financial assets				
Depository receipts	29,135	-	-	29,135
Stocks	1,930,999	126,838	32,701	2,090,538
Bonds	6,181,565	-	1,109,292	7,290,857
Funds	5,536,825	-	1,838,608	7,375,433
Total	<u>\$ 13,683,275</u>	<u>\$ 2,929,940</u>	<u>\$ 9,493,939</u>	<u>\$ 26,107,154</u>

For the three months ended March 31, 2017 and 2016, there were no transfers between Level 1 and Level 2 of the fair value hierarchy.

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

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

	Financial assets at fair value through profit or loss		Available-for-sale financial assets			
	Bonds	Linked deposits	Bonds	Funds	Stocks	Total
As of January 1, 2017	\$ 646,029	\$ 3,807,617	\$ 2,306,190	\$ 789,934	\$ 32,701	\$ 7,582,471
Amount recognized in profit or loss	25,899	16,119	3,106	7,721	-	52,845
Amount recognized in OCI	-	-	14,082	-	-	14,082
Amount recognized in OCI- exchange differences	(33,925)	(188,546)	(131,328)	(40,916)	-	(394,715)
Acquisitions	-	545,502	1,093,996	352,565	-	1,992,063
Settlements	-	(755,295)	(549,079)	(536,386)	-	(1,840,760)
As of March 31, 2017	<u>\$ 638,003</u>	<u>\$ 3,425,397</u>	<u>\$ 2,736,967</u>	<u>\$ 572,918</u>	<u>\$ 32,701</u>	<u>\$ 7,405,986</u>

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

	Financial assets at fair value through profit or loss		Available-for-sale financial assets			Total
	Bonds	Linked deposits	Bonds	Funds	Stocks	
As of January 1, 2016	\$ 1,712,272	\$ 4,923,666	\$ 1,133,112	\$ 1,249,090	\$ 32,701	\$ 9,050,841
Amount recognized in profit or loss	20,085	(43,721)	2,279	243	-	(21,114)
Amount recognized in OCI	-	-	866	-	-	866
Amount recognized in OCI- exchange differences	(40,921)	(84,008)	(26,965)	(21,326)	-	(173,220)
Acquisitions	-	40,000	-	660,758	-	700,758
Settlements	-	(14,035)	-	(50,157)	-	(64,192)
As of March 31, 2016	<u>\$ 1,691,436</u>	<u>\$ 4,821,902</u>	<u>\$ 1,109,292</u>	<u>\$ 1,838,608</u>	<u>\$ 32,701</u>	<u>\$ 9,493,939</u>

Total losses related to bonds, funds and linked deposits on hand recognized for the three months ended March 31, 2017 and 2016 amounted to NT\$42,018 thousand and NT\$28,733 thousand, respectively.

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

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

As of March 31, 2017:

	Valuation technique	Significant unobservable inputs	Quantitative information	Interrelationship	Sensitivity analysis of the inputs to fair value
				between inputs and fair value	
Stock	Market Approach	Price-Book ratio of similar entities	28.32~ 29.63	The higher the Price-Book ratio of similar entities, the higher the fair value estimated number	10% increase (decrease) in the Price-Book ratio of similar entities would result in an increase (decrease) in profit or loss by NT\$2,326 thousand.

**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, 2016:

	Valuation technique	Significant unobservable inputs	Quantitative information	Interrelationship between inputs and fair value	Sensitivity analysis of the inputs to fair value
Stock	Market Approach	Price-Book ratio of similar entities	28.32~ 29.63	The higher the Price-Book ratio of similar entities, the higher the fair value estimated number	10% increase (decrease) in the Price-Book ratio of similar entities would result in an increase (decrease) in profit or loss by NT\$2,326 thousand.

As of March 31, 2016:

	Valuation technique	Significant unobservable inputs	Quantitative information	Interrelationship between inputs and fair value	Sensitivity analysis of the inputs to fair value
Stock	Market Approach	Price-Book ratio of similar entities	6.87~ 27.01	The higher the Price-Book ratio of similar entities, the higher the fair value estimated number	10% increase (decrease) in the Price-Book ratio of similar entities would result in an increase (decrease) in profit or loss by NT\$3,570 thousand.

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

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

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

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

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

As of March 31, 2017

	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value but for which the fair value is disclosed:				
Investment property	\$ -	\$ -	\$ 1,211,483	\$ 1,211,483

As of December 31, 2016

	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value but for which the fair value is disclosed:				
Investment property	\$ -	\$ -	\$ 951,645	\$ 951,645

As of March 31, 2016

	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value but for which the fair value is disclosed:				
Held-to-maturity financial assets				
Bonds	\$ 1,499,399	\$ -	\$ -	\$ 1,499,399
Investment property	\$ -	\$ -	\$ 279,041	\$ 279,041

**D. Derivative financial instruments**

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

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

Forward exchange contracts	Currency	Contract amount ( '000)	Maturity
As of March 31, 2017	TWD to USD	Buy USD 50,000	April 2017
As of March 31, 2017	CNY to USD	Buy USD 149,328	April 2017
As of December 31, 2016	TWD to USD	Sell USD 220,000	January 2017
As of December 31, 2016	TWD to USD	Sell USD 40,000	February 2017

There were no outstanding forward exchange contracts as of March 31, 2016.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

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

**(2) Financial risk management objectives and policies**

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

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

**A. Market risk**

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

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

**a. Foreign currency risk**

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

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

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

When NTD appreciates or depreciates against USD by 0.1%, the profit for the three months ended March 31, 2017 and 2016 decreases/increases by NT\$4,261 thousand and NT\$906 thousand, while equity decreases/increases by NT\$69,912 thousand and NT\$9,331 thousand, respectively.

When NTD appreciates or depreciates against CNY by 0.1%, the profit for the three months ended March 31, 2017 and 2016 increases/decreases by NT\$3 thousand and decreases/increases by NT\$51 thousand, while equity decreases/increases by NT\$5,707 thousand and NT\$3,969 thousand, respectively.

**b. Interest rate risk**

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

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

The interest rate sensitivity analysis is performed on items exposed to interest rate risk as of the end of the reporting period, including investments and bank borrowings with variable interest rates. At the reporting date, an increase/decrease of 10 basis points of interest rate in a reporting period could cause the profit for the three months ended March 31, 2017 and 2016 to increase/decrease by NT\$2,144 thousand and NT\$6,397 thousand, respectively.

c. Other price risk

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

A change of 1% in the price of the listed equity securities classified under available-for-sale could cause the other comprehensive income for the three months ended March 31, 2017 and 2016 to increase/decrease by NT\$243,012 thousand and NT\$76,238 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.

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

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

As of March 31, 2017, December 31, 2016, and March 31, 2016 receivables from top ten customers represented 39.29%, 37.58%, and 47.12% of the total trade receivables of the Company, respectively. The credit concentration risk of other accounts receivables was insignificant.

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

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

**C. Liquidity risk management**

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



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

	Less than 1 year	1 to 5 years	Less than 5 years	Total
<u>As of March 31, 2017</u>				
Short-term borrowings	\$ 60,900,599	\$ -	\$ -	\$ 60,900,599
Trade payables (including related parties)	31,298,692	-	-	31,298,692
Other payables	31,265,149	-	-	31,265,149
Long-term borrowings	24,669	285,163	131,834	441,666
Total	<u>\$ 123,489,109</u>	<u>\$ 285,163</u>	<u>\$ 131,834</u>	<u>\$ 123,906,106</u>

As of December 31, 2016

Short-term borrowings	\$ 55,000,416	\$ -	\$ -	\$ 55,000,416
Trade payables (including related parties)	24,630,117	-	-	24,630,117
Other payables	33,937,995	-	-	33,937,995
Long-term borrowings	24,755	292,370	126,129	443,254
Total	<u>\$ 113,593,283</u>	<u>\$ 292,370</u>	<u>\$ 126,129</u>	<u>\$ 114,011,782</u>

As of March 31, 2016

Short-term borrowings	\$ 48,066,716	\$ -	\$ -	\$ 48,066,716
Trade payables (including related parties)	23,022,634	-	-	23,022,634
Other payables	28,532,267	-	-	28,532,267
Long-term payables	41,160	-	-	41,160
Total	<u>\$ 99,662,777</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 99,662,777</u>

Derivative financial instruments

	Less than 1 year	1 to 5 years	Total
<u>As of March 31, 2017</u>			
Net settlement			
Forward exchange contracts	<u>\$ (18,380)</u>	<u>\$ -</u>	<u>\$ (18,380)</u>
Gross settlement			
Forward exchange contracts			
Inflow	\$ 4,530,009	\$ -	\$ 4,530,009
Outflow	(4,560,386)	-	(4,560,386)
Net	<u>\$ (30,377)</u>	<u>\$ -</u>	<u>\$ (30,377)</u>

As of December 31, 2016

Net settlement			
Forward exchange contracts	<u>\$ (47,710)</u>	<u>\$ -</u>	<u>\$ (47,710)</u>

**MEDIATEK INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**  
**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**As of March 31, 2016

None

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

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

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

	<u>March 31, 2017</u>		
	<u>Foreign Currency (thousand)</u>	<u>Exchange rate</u>	<u>NT\$ (thousand)</u>
<u>Financial assets</u>			
Monetary item:			
USD	\$ 4,654,143	30.336	\$ 141,188,088
CNY	\$ 520	4.407	\$ 2,294
Non-monetary item:			
USD	\$ 1,086,212	30.336	\$ 32,951,321
CNY	\$ 1,294,858	4.407	\$ 5,706,517
<u>Financial liabilities</u>			
Monetary item:			
USD	\$ 3,345,327	30.336	\$ 101,483,860
CNY	\$ 1,152	4.407	\$ 5,075
	<u>December 31, 2016</u>		
	<u>Foreign Currency (thousand)</u>	<u>Exchange rate</u>	<u>NT\$ (thousand)</u>
<u>Financial assets</u>			
Monetary item:			
USD	\$ 4,445,288	32.279	\$ 143,489,389
CNY	\$ 895	4.647	\$ 4,163
Non-monetary item:			
USD	\$ 896,434	32.279	\$ 28,935,990
CNY	\$ 1,548,281	4.647	\$ 7,194,350
<u>Financial liabilities</u>			
Monetary item:			
USD	\$ 3,511,854	32.279	\$ 113,359,152
CNY	\$ 112	4.647	\$ 520

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

	March 31, 2016		
	Foreign Currency		
	(thousand)	Exchange rate	NT\$ (thousand)
<b>Financial assets</b>			
Monetary item:			
USD	\$ 2,308,207	32.282	\$ 74,513,516
CNY	\$ 10,602	5.006	\$ 53,074
Non-monetary item:			
USD	\$ 588,685	32.282	\$ 19,003,915
CNY	\$ 792,967	5.006	\$ 3,969,388
<b>Financial liabilities</b>			
Monetary item:			
USD	\$ 2,579,786	32.282	\$ 83,280,478
CNY	\$ 313	5.006	\$ 1,639

The Company's entities functional currency are various, and hence is not able to disclose the information of exchange gains and losses of monetary financial assets and liabilities by each significant assets and liabilities denominated in foreign currencies. The foreign exchange (loss) gain was NT\$(455,032) thousand and NT\$71,310 thousand for the three months ended March 31, 2017 and 2016, respectively.

**(4) Capital management**

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.

**13. Segment Information****(1) General information**

The major sales of the Company come from multimedia and mobile phone chips and other integrated circuit design products. The chief operating decision maker reviews the overall operating results to make decisions about resources to be allocated to and evaluates the overall performance. Therefore, the Company is aggregated into a single segment.