

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 YEARS ENDED
DECEMBER 31, 2017 AND 2016

REPRESENTATION LETTER

The entities included in the consolidated financial statements as of December 31, 2017 and for the year then ended prepared under the International Financial Reporting Standards, No.10 are the same as the entities to be included in the combined financial statements of the Company, if any to be prepared, pursuant to the Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises (referred to as “Combined Financial Statements”). Also, the footnotes disclosed in the Consolidated Financial Statements have fully covered the required information in such Combined Financial Statements. Accordingly, the Company did not prepare any other set of Combined Financial Statements than the Consolidated Financial Statements.

Very truly yours,

MediaTek Inc.

Chairman: Ming-Kai Tsai

March 23, 2018

English Translation of a Report Originally Issued in Chinese

Independent Auditors' Report

To the Board of Directors and Shareholders
of MediaTek Inc.

Opinion

We have audited the accompanying consolidated balance sheets of MediaTek Inc. and its subsidiaries as of December 31, 2017 and 2016, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2017 and 2016, and notes to the consolidated financial statements, including the summary of significant accounting policies (together “the consolidated financial statements”).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of MediaTek Inc. and its subsidiaries as of December 31, 2017 and 2016, and their consolidated financial performance and cash flows for the years ended December 31, 2017 and 2016, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of MediaTek Inc. and its subsidiaries in accordance with the Norm of Professional Ethics for Certified Public Accountant of the Republic of China (the “Norm”), and we have fulfilled our other ethical responsibilities in accordance with the Norm. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of 2017 consolidated financial statements. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition

MediaTek Inc. and its subsidiaries recognized NT\$238,216,318 thousand as net sales, which includes sale of goods in the amount of NT\$260,583,467 thousand, other operating revenues in the amount of NT\$1,969,694 thousand, and sales returns and discounts in the amount of NT\$24,336,843 thousand for the year ended December 31, 2017. Sales of goods are mainly sales of chips. Due to large transaction volume, an improper timing of revenue recognition may have significant impacts on the Company's consolidated financial statements. As a result, we determined the matter to be a key audit matter.

Our audit procedures include (but are not limited to) assessing the appropriateness of the accounting policy for revenue recognition; evaluating and testing the effectiveness of internal control which is related to the timing of revenue recognition; performing test of details on samples selected from top ten customers and reviewing the significant terms of sales agreements and tracing to relevant documentation of transactions; adopting audit sampling on trade receivables and performing confirmation procedures on final balance and key terms of sales agreements; performing cutoff testing, on a sampling basis, for a period before and after the reporting date, and analyzing the reasonableness of fluctuations. Besides, we also review if there are significant revenue reversals in subsequent periods.

We also considered the appropriateness of the disclosures of sales. Please refer to Note 6 in notes to consolidated financial statements.

Fair value measurement of significant business combination

Hsu-Si Investment Corp., a subsidiary of MediaTek Inc., accomplished the take-over bid process to acquire 40% shares of Airoha Technology Corp. on March 14, 2017. Hsu-Si Investment acquired 37% shares of Airoha Technology Corp. from third parties by paying NT\$2,455,624 thousand. In addition, Hsu-Si Investment paid NT\$209,744 thousand to obtain 3% shares of Airoha Technology Corp. from Hsu-Ta Investment Corp. The fair value of the identifiable net assets acquired was NT\$3,396,762 thousand and the goodwill arising from the acquisition was NT\$2,039,366 thousand. Thereafter, Hsu-Si Investment Corp. acquired the rest of 60% shares of Airoha Technology Corp. in 2017. The amount of the acquisition was significant and was related to measurement of fair value, as a result, we determined the matter to be a key audit matter.

Our audit procedures include (but are not limited to) assessing the prospective financial information used for preparing the appraisal report on fair value by management and comparing with Airoha Technology Corp.'s historical financial information and the industry expectation in market to evaluate the reasonableness; using internal valuation specialists to assist us in evaluating the appropriateness of the methods and models used by management, reassessing parameters and assumptions used in the appraisal report on fair value, and comparing whether the differences are within our acceptable range to evaluate the reasonableness of key assumptions.

We also considered the appropriateness of the disclosures of business combinations. Please refer to Note 6 in notes to consolidated financial statements.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by Financial Supervisory Commission of the Republic of China and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the ability to continue as a going concern of MediaTek Inc. and its subsidiaries, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate MediaTek Inc. and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including audit committee, are responsible for overseeing the financial reporting process of MediaTek Inc. and its subsidiaries.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of MediaTek Inc. and its subsidiaries.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern of MediaTek Inc. and its subsidiaries. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause MediaTek Inc. and its subsidiaries to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the accompanying notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within MediaTek Inc. and its subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of 2017 consolidated financial statements and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Others

We have audited and expressed an unqualified opinion on the parent company only financial statements of MediaTek Inc. as of and for the years ended December 31, 2017 and 2016.

/s/Kuo, Shao-Pin

/s/Fuh, Wen-Fun

Ernst & Young
CERTIFIED PUBLIC ACCOUNTANTS
March 23, 2018
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 audit 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 December 31, 2017 and 2016

(Amounts in thousands of New Taiwan Dollars)

ASSETS	Notes	December 31, 2017	%	December 31, 2016	%
Current assets					
Cash and cash equivalents	4, 6(1)	\$ 145,338,376	37	\$ 140,560,858	38
Financial assets at fair value through profit or loss-current	4, 5, 6(2)	724,507	-	1,970,502	1
Available-for-sale financial assets-current	4, 5, 6(3)	23,291,828	6	9,428,674	3
Debt instrument investments for which no active market exists-current	4, 6(5), 8	765,445	-	1,505,492	-
Notes receivables, net		2,811	-	2,811	-
Trade receivables, net	4, 5, 6(6)	16,892,585	4	20,477,995	6
Other receivables	6(6), 7	21,251,357	5	5,497,925	1
Current tax assets	4, 5	866,917	-	357,517	-
Inventories, net	4, 5, 6(7)	26,539,614	7	33,922,914	9
Prepayments	6(8)	1,390,432	-	1,505,221	-
Non-current assets held for sale	4, 6(30)	-	-	3,633,726	1
Other current assets		1,600,624	1	1,413,935	-
Total current assets		238,664,496	60	220,277,570	59
Non-current assets					
Financial assets at fair value through profit or loss-noncurrent	4, 5, 6(2)	4,616,406	1	4,997,093	2
Available-for-sale financial assets-noncurrent	4, 5, 6(3)	14,345,644	4	18,914,717	5
Financial assets measured at cost-noncurrent	4, 6(4)	12,635,302	3	6,895,187	2
Debt instrument investments for which no active market exists-noncurrent	4, 6(5), 8	397,880	-	257,928	-
Investments accounted for using the equity method	4, 6(9), 6(29)	5,777,104	2	5,905,795	2
Property, plant and equipment	4, 6(10), 6(30), 8	36,938,640	10	36,857,740	10
Investment property	4, 6(11), 8	873,651	-	651,408	-
Intangible assets	4, 6(12), 6(13), 6(30)	76,029,080	19	72,014,554	19
Deferred tax assets	4, 5, 6(27)	3,898,877	1	3,265,695	1
Refundable deposits		319,734	-	326,152	-
Long-term lease receivables	4, 6(14)	-	-	211,137	-
Prepayments for investments		160,340	-	-	-
Net defined benefit assets-noncurrent	4, 6(18)	2,080	-	2,070	-
Long-term prepaid rent		154,951	-	134,726	-
Total non-current assets		156,149,689	40	150,434,202	41
Total assets		<u>\$ 394,814,185</u>	<u>100</u>	<u>\$ 370,711,772</u>	<u>100</u>

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

Chairman : Ming-Kai Tsai

President : Lih-Shyng Tsai

Chief Financial Officer : David Ku

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of December 31, 2017 and 2016

(Amounts in thousands of New Taiwan Dollars)

LIABILITIES AND EQUITY	Notes	December 31, 2017	%	December 31, 2016	%
Current liabilities					
Short-term borrowings	6(15)	\$ 64,315,682	16	\$ 54,523,984	15
Financial liabilities at fair value through profit or loss-current	4, 5, 6(2)	18,144	-	45,098	-
Trade payables		23,012,859	6	23,706,560	6
Trade payables to related parties	7	571,593	-	923,557	-
Other payables	6(16)	35,796,290	9	33,937,995	9
Current tax liabilities	4, 5, 6(27)	1,980,597	1	3,415,214	1
Liabilities directly associated with non-current assets held for sale	4, 6(30), 7	-	-	675,043	-
Other current liabilities		1,525,368	-	2,100,815	1
Current portion of long-term liabilities	6(17), 8	36,850	-	18,425	-
Total current liabilities		127,257,383	32	119,346,691	32
Non-current liabilities					
Long-term borrowings	6(17), 8	336,192	-	400,661	-
Long-term payables		1,726,364	1	-	-
Net defined benefit liabilities-noncurrent	4, 6(18)	657,072	-	840,331	-
Deposits received	7	179,472	-	177,512	-
Deferred tax liabilities	4, 5, 6(27)	3,126,723	1	3,025,449	1
Non-current liabilities-others		331,966	-	258,250	-
Total non-current liabilities		6,357,789	2	4,702,203	1
Total liabilities		133,615,172	34	124,048,894	33
Equity attributable to owners of the parent					
Share capital	6(19)				
Common stock		15,814,140	4	15,821,122	4
Capital collected in advance		231	-	-	-
Capital surplus	6(19), 6(20), 6(31)	88,210,819	22	89,815,356	24
Retained earnings	6(19)				
Legal reserve		36,998,379	9	34,628,319	10
Undistributed earnings		100,629,197	26	92,324,282	25
Other equity	6(20)	18,214,847	5	12,245,801	3
Treasury shares	4, 6(19)	(55,970)	-	(55,970)	-
Equity attributable to owners of the parent		259,811,643	66	244,778,910	66
Non-controlling interests	4, 6(19), 6(31)	1,387,370	-	1,883,968	1
Total equity		261,199,013	66	246,662,878	67
Total liabilities and equity		<u>\$ 394,814,185</u>	<u>100</u>	<u>\$ 370,711,772</u>	<u>100</u>

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

Chairman : Ming-Kai Tsai

President : Lih-Shyng Tsai

Chief Financial Officer : David Ku

MEDIATEK INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2017 and 2016

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

Description	Notes	2017	%	2016	%
Net sales	4, 5, 6(21)	\$ 238,216,318	100	\$ 275,511,714	100
Operating costs	4, 5, 6(7), 6(22), 7	(153,330,436)	(64)	(177,321,882)	(64)
Gross profit		84,885,882	36	98,189,832	36
Operating expenses	6(22), 7				
Selling expenses		(10,465,092)	(5)	(12,413,733)	(5)
Administrative expenses		(7,430,872)	(3)	(7,015,080)	(3)
Research and development expenses		(57,170,776)	(24)	(55,685,244)	(20)
Total operating expenses		(75,066,740)	(32)	(75,114,057)	(28)
Operating income		9,819,142	4	23,075,775	8
Non-operating income and expenses					
Other income	4, 6(23), 7	3,475,974	1	3,485,549	2
Other gains and losses	4, 6(24)	14,809,523	6	544,326	-
Finance costs	6(25)	(939,344)	-	(558,906)	-
Share of profit of associates accounted for using the equity method	4, 6(9)	72,168	-	666,141	-
Total non-operating income and expenses		17,418,321	7	4,137,110	2
Net income before income tax		27,237,463	11	27,212,885	10
Income tax expense	4, 5, 6(27)	(3,167,365)	(1)	(3,182,353)	(1)
Net income		24,070,098	10	24,030,532	9
Other comprehensive income	4, 6(9), 6(26), 6(27)				
Items that may not be reclassified subsequently to profit or loss					
Remeasurements of the defined benefit plan		207,977	-	(65,079)	-
Income tax relating to those items not to be reclassified to profit or loss		(35,356)	-	11,064	-
Items that may be reclassified subsequently to profit or loss					
Exchange differences resulting from translating the financial statements of foreign operations		(4,439,045)	(2)	(4,504,523)	(2)
Unrealized gains from available-for-sale financial assets		10,785,999	5	11,297,597	4
Share of other comprehensive income of associates accounted for using the equity method		(7,559)	-	125,345	-
Income tax relating to those items to be reclassified to profit or loss		(1,248,983)	(1)	(1,172,986)	-
Other comprehensive income, net of tax		5,263,033	2	5,691,418	2
Total comprehensive income		\$ 29,333,131	12	\$ 29,721,950	11
Net income (loss) for the periods attributable to :					
Owners of the parent	6(28)	\$ 24,332,604		\$ 23,700,598	
Non-controlling interests	6(19), 6(31)	(262,506)		329,934	
		\$ 24,070,098		\$ 24,030,532	
Total comprehensive income for the periods attributable to :					
Owners of the parent		\$ 29,601,582		\$ 29,463,494	
Non-controlling interests		(268,451)		258,456	
		\$ 29,333,131		\$ 29,721,950	
Basic Earnings Per Share (in New Taiwan Dollars)	6(28)	\$ 15.56		\$ 15.16	
Diluted Earnings Per Share (in New Taiwan Dollars)	6(28)	\$ 15.47		\$ 15.13	

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

Chairman : Ming-Kai Tsai

President : Lih-Shyng Tsai

Chief Financial Officer : David Ku

MEDIATEK INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 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	Capital collected in advance		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
Appropriation and distribution of 2015 earnings:												
Legal reserve	-	-	-	2,595,843	(2,595,843)	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(17,287,421)	-	-	-	-	(17,287,421)	-	(17,287,421)
Total	-	-	-	2,595,843	(19,883,264)	-	-	-	-	(17,287,421)	-	(17,287,421)
Profit for the year ended December 31, 2016	-	-	-	-	23,700,598	-	-	-	-	23,700,598	329,934	24,030,532
Other comprehensive income for the year ended December 31, 2016	-	-	-	-	(54,015)	(4,307,700)	10,124,611	-	-	5,762,896	(71,478)	5,691,418
Total comprehensive income	-	-	-	-	23,646,583	(4,307,700)	10,124,611	-	-	29,463,494	258,456	29,721,950
Share-based payment transactions	-	-	10,353	-	-	-	-	-	-	10,353	-	10,353
Adjustments due to dividends that subsidiaries received from parent company	-	-	85,735	-	-	-	-	-	-	85,735	-	85,735
The differences between the fair value of the consideration paid or received from acquiring or disposing subsidiaries and the carrying amounts of the subsidiaries	-	-	(142,643)	-	(7,915,324)	-	-	-	-	(8,057,967)	-	(8,057,967)
Changes in ownership interests in subsidiaries	-	-	(99,948)	-	-	-	-	-	-	(99,948)	220,048	120,100
Issuance of restricted stock for employees	105,285	-	1,660,064	-	-	-	-	(1,476,028)	-	289,321	-	289,321
Changes in associates and joint ventures accounted for using the equity method	-	-	(52,383)	-	-	-	-	-	-	(52,383)	-	(52,383)
Non-controlling interests	-	-	-	-	-	-	-	-	-	-	(5,253,695)	(5,253,695)
Balance as of December 31, 2016	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
Appropriation and distribution of 2016 earnings:												
Legal reserve	-	-	-	2,370,060	(2,370,060)	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(12,652,827)	-	-	-	-	(12,652,827)	-	(12,652,827)
Total	-	-	-	2,370,060	(15,022,887)	-	-	-	-	(12,652,827)	-	(12,652,827)
Cash dividends distributed from capital surplus	-	-	(2,372,405)	-	-	-	-	-	-	(2,372,405)	-	(2,372,405)
Profit for the year ended December 31, 2017	-	-	-	-	24,332,604	-	-	-	-	24,332,604	(262,506)	24,070,098
Other comprehensive income for the year ended December 31, 2017	-	-	-	-	172,621	(4,440,659)	9,537,016	-	-	5,268,978	(5,945)	5,263,033
Total comprehensive income	-	-	-	-	24,505,225	(4,440,659)	9,537,016	-	-	29,601,582	(268,451)	29,333,131
Share-based payment transactions	-	231	(14,935)	-	-	-	-	-	-	(14,704)	15,072	368
Adjustments due to dividends that subsidiaries received from parent company	-	-	74,044	-	-	-	-	-	-	74,044	-	74,044
The differences between the fair value of the consideration paid or received from acquiring or disposing subsidiaries and the carrying amounts of the subsidiaries	-	-	-	-	(1,210,299)	(5,524)	-	-	-	(1,215,823)	-	(1,215,823)
Changes in ownership interests in subsidiaries	-	-	969,913	-	-	-	-	-	-	969,913	1,028,273	1,998,186
Issuance of restricted stock for employees	(6,982)	-	(259,863)	-	32,876	-	-	878,213	-	644,244	-	644,244
Changes in other capital surplus	-	-	(1,291)	-	-	-	-	-	-	(1,291)	10,619	9,328
Non-controlling interests	-	-	-	-	-	-	-	-	-	-	(1,282,111)	(1,282,111)
Balance as of December 31, 2017	\$ 15,814,140	\$ 231	\$ 88,210,819	\$ 36,998,379	\$ 100,629,197	\$ (2,250,288)	\$ 21,062,950	\$ (597,815)	\$ (55,970)	\$ 259,811,643	\$ 1,387,370	\$ 261,199,013

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

Chairman : Ming-Kai Tsai

President : Lih-Shyng Tsai

Chief Financial Officer : David Ku

MEDIATEK INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2017 and 2016
(Amounts in thousands of New Taiwan Dollars)

Description	2017	2016
Cash flows from operating activities :		
Profit before tax from continuing operations	\$ 27,237,463	\$ 27,212,885
Adjustments for:		
The profit or loss items which did not affect cash flows:		
Depreciation	3,558,022	3,061,378
Amortization	3,652,327	3,834,700
Bad debt provision (reversal)	52,612	(125,735)
(Gains) losses on financial assets and liabilities at fair value through profit or loss	(96,850)	150,092
Interest expenses	939,344	558,906
Interest income	(2,553,755)	(2,517,861)
Dividend income	(580,035)	(398,259)
Share-based payment expenses	618,533	306,762
Share of profit of associates accounted for using the equity method	(72,168)	(666,141)
Losses on disposal of property, plant and equipment	30,714	15,778
Property, plant and equipment transferred to expenses	2,685	-
Losses on disposal of intangible assets	450	909
Gains on disposal of non-current assets held for sale	(5,123,575)	-
(Gains) losses on disposal of investments	(8,843,983)	114,121
Gains on disposal of investments accounted for using the equity method	(1,496,172)	(308,804)
Impairment of financial assets	416,414	71,172
Others	193,093	-
Changes in operating assets and liabilities:		
Financial assets at fair value through profit or loss	1,293,511	2,505,819
Notes receivables	-	(2,811)
Trade receivables	3,549,518	(3,085,118)
Other receivables	(427,367)	(2,175,536)
Inventories	8,626,099	(8,168,244)
Prepayments	151,070	716,052
Other current assets	(180,889)	731,009
Other non-current assets-others	-	78,429
Trade payables	(7,292,580)	8,004,952
Trade payables to related parties	(351,964)	288,747
Other payables	739,330	2,490,761
Other current liabilities	(502,469)	65,439
Long-term payables	-	(56,212)
Net defined benefit liabilities	9,460	13,270
Non-current liabilities-others	73,716	101,315
Cash generated from operating activities:		
Interest received	2,543,031	1,928,317
Dividend received	671,397	591,786
Interest paid	(887,340)	(561,624)
Income tax paid	(4,601,206)	(2,228,537)
Net cash provided by operating activities	21,348,436	32,547,717
Cash flows from investing activities :		
Acquisition of available-for-sale financial assets	(5,988,436)	(7,600,096)
Proceeds from disposal of available-for-sale financial assets	6,458,873	7,860,169
Acquisition of debt instrument investments for which no active market exists	(1,612,505)	(2,581,738)
Proceeds from disposal of debt instrument investments for which no active market exists	1,916,353	787,445
Proceeds from redemption of held-to-maturity financial assets	-	1,491,256
Acquisition of financial assets measured at cost	(7,557,416)	(2,215,603)
Proceeds from disposal of financial assets measured at cost	202,762	129
Proceeds from capital return of financial assets measured at cost	29,373	38,268
Acquisition of investments accounted for using the equity method	(925,288)	(4,612,267)
Proceeds from disposal of investments accounted for using the equity method	559	-
Increase in prepayments for investments	(160,340)	-
Net cash outflow from acquisition of subsidiaries	(1,056,531)	(2,406,378)
Proceeds from disposal of non-current assets held for sale	5,683,619	-
Acquisition of property, plant and equipment	(4,053,439)	(6,671,275)
Proceeds from disposal of property, plant and equipment	8,151	67,752
Decrease (increase) in refundable deposits	12,474	(66,503)
Acquisition of intangible assets	(1,795,842)	(366,912)
Proceeds from disposal of intangible assets	137	-
Acquisition of investment property	(1,436)	(732)
Decrease (increase) in long-term lease receivables	211,898	(209,684)
(Increase) decrease in long-term prepaid rent	(20,225)	16,138
Net cash used in investing activities	(8,647,259)	(16,470,031)
Cash flows from financing activities :		
Increase in short-term borrowings	11,597,859	5,455,795
Proceeds from long-term borrowings	-	124,286
Repayment of long-term borrowings	(46,044)	-
Increase in deposits received	1,960	7,774
Proceeds from exercise of employee stock options	6,444	-
Cash dividends	(14,912,148)	(17,201,686)
Disposal of ownership interests in subsidiaries(without losing control)	80,843	-
Acquisition of subsidiaries	(2,108,605)	(14,184,102)
Change in non-controlling interests	1,595,838	987,964
Net cash used in financing activities	(3,783,853)	(24,809,969)
Effect of changes in exchange rate on cash and cash equivalents	(4,139,806)	(3,198,288)
Net increase (decrease) in cash and cash equivalents	4,777,518	(11,930,571)
Cash and cash equivalents at the beginning of the year	140,560,858	153,279,687
Cash and cash equivalents at the end of the year	\$ 145,338,376	\$ 141,349,116
Reconciliation of the balances of cash and cash equivalents at the end of the year:		
Cash and cash equivalents on the consolidated balance sheets	\$ 145,338,376	\$ 140,560,858
Cash and cash equivalents included in non-current assets held for sale	-	788,258
Cash and cash equivalents at the end of the year	\$ 145,338,376	\$ 141,349,116

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

Chairman : Ming-Kai Tsai

President : Lih-Shyng Tsai

Chief Financial Officer : David Ku

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO 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 March 23, 2018.

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, which are recognized by FSC, but not yet adopted by the Company as at the end of the reporting period are listed below:

Standards or Interpretations Numbers	The Projects of Standards or Interpretations	Effective Dates
IFRS 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 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 Associates or Joint Ventures	Postponed indefinitely
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 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”

International Accounting Standards Board (“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.

Consequential amendments on the related disclosures are also applicable with the new standards.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

C. 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.

D. 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.

The abovementioned standards and interpretations issued by IASB and recognized by FSC will become effective for annual periods beginning on or after January 1, 2018. Except for the potential impact of the standards and interpretations listed under A-D which is described below, the remaining standards and interpretations have no material impact on the Company.

A. IFRS 15 “Revenue from Contracts with Customers” (including Amendments to IFRS 15 “Clarifications to IFRS 15 Revenue from Contracts with Customers”)

The Company elected to recognize the cumulative effect of initially applying IFRS 15 at the date of initial application (January 1, 2018). The Company also elected to apply this standard retrospectively only to contracts that are not completed contracts at the date of initial application.

The Company’s principal activities consist of the sale of goods and rendering of services. The impacts arising from the adoption of IFRS 15 on the Company are summarized as follows :

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- (A) Revenue is currently recognized by reference to the stage of completion. Starting from the date of initial application, in accordance with IFRS 15, the Company shall recognize revenue when (or as) the Company satisfies a performance obligation by transferring a promised service to a customer and also by reference to the stage of completion. The aforementioned difference was expected to result in, at the date of initial application, decrease of retained earnings by NT\$211,277 thousand and increase of contracts liabilities by NT\$240,087 thousand, as well as increase of relevant deferred tax assets by NT\$28,810 thousand. For some rendering of services contracts, part of the consideration was received from customers upon signing the contract, then the Company has the obligation to provide the services subsequently. The Company recognized the consideration received in advance from customers as payment received in advance under other current liabilities. Starting from the date of initial application, in accordance with IFRS 15, it should be recognized as contract liabilities. The amount reclassified from other current liabilities to contracts liabilities of the Company as at the date of initial application was NT\$121,149 thousand.
- (B) In accordance with the requirements of IFRS 15, more extensive disclosure would have to be made.

B. IFRS 9 “Financial Instruments”

The Company elects not to restate prior periods in accordance with the requirements of IFRS 9 at the date of initial application (January 1, 2018). The adoption of IFRS 9 has the following impacts on the Company:

- (A) Classification and measurement of financial assets

Available-for-sale financial assets – equity instrument investments

The assessment of the cash flow characteristics will be based on the facts and circumstances that existed as at the date of initial application.

As these equity instrument investments are not held-for-trading, the Company elected to designate them as financial assets measured at fair value through other comprehensive income. On the date of initial application, the Company will reclassify available-for-sale financial assets (including financial assets measured at cost of NT\$12,334,155 thousand) to financial assets measured at fair value through other comprehensive income of NT\$38,180,426 thousand. Other related adjustments are described as follow:

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- (a) The equity instrument investments currently measured at cost in accordance with IAS 39 of NT\$12,334,155 thousand had an original cost of NT\$13,617,769 thousand, among which NT\$1,283,614 thousand were impaired. However, in accordance with the requirement of IFRS 9, equity instrument investments must be measured at fair value but are not required to be assessed for impairment. The estimated fair value of the equity instrument investments were NT\$14,219,155 thousand as at the date of initial application. The Company will reclassify financial assets measured at cost to financial assets measured at fair value through other comprehensive income of NT\$12,334,155 thousand and will also adjust and increase the carrying amount to NT\$14,219,155 thousand, as well as increasing retained earnings and other equity by NT\$1,283,614 thousand and NT\$601,386 thousand at the date of initial application, respectively.
- (b) The equity instrument investments currently measured at cost in accordance with IAS 39 of NT\$301,147 thousand, in accordance with the requirement of IFRS9, must be measured at fair value but are not required to be assessed for impairment. The estimated fair value of the equity instrument investments was NT\$495,038 thousand as at the date of initial application. The Company will reclassify financial assets measured at cost to financial assets at fair value through profit or loss of NT\$301,147 thousand and will also adjust and increase the carrying amount to NT\$495,038 thousand, as well as increasing retained earnings by NT\$193,891 thousand at the date of initial application.
- (c) The equity instrument investments of NT\$25,846,271 thousand are currently measured at fair value. As the date of initial application, except for the reclassification to financial assets measured at fair value through other comprehensive income and other equity accounts, no other difference will incur.

Available-for-sale financial assets – fund investments

As the cash flow characteristics for funds are not solely payments of principal and interest on the principal amount outstanding, funds are classified as financial assets mandatorily measured at fair value through profit or loss in accordance with IFRS 9.

As at the date of initial application, the Company will reclassify available-for-sale financial assets of NT\$5,732,583 thousand to financial assets mandatorily measured at fair value through profit or loss. Besides, changes in fair value of NT\$265,366 thousand previously recognized in other equity will be reclassified to retained earnings.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Available-for-sale financial assets – de-recognition of equity investments measured at fair value

Upon de-recognition of equity investments currently classified as available-for-sale measured at fair value, the accumulated gains or losses previously recognized in other comprehensive income was recycled to profit or loss from equity. However under IFRS 9, subsequent fair value changes of the aforementioned equity investments are recognized in other comprehensive income and cannot be recycled to profit or loss. Upon de-recognition, the accumulated amounts in other component of equity is reclassified to retained earnings (reclassification to profit or loss is not allowed).

Impairment of financial assets

This is applicable to financial assets not measured at fair value through profit or loss. In accordance with the requirements of IFRS 9, a loss allowance for debt instruments is measured using the expected credit loss model, whereas trade receivables or contract assets that result from transactions that are within the scope of IFRS 15 is measured using the simplified approach (provision matrix); The aforementioned requirements on impairment is different from the current incurred loss model and have no material impact on the Company.

Besides, under IFRS9, impairment assessment is not required for equity instruments. Therefore, as the Company elects to classify certain equity investments as financial assets measured at fair value through other comprehensive income, the Company will reclassify an accumulated impairment loss of NT\$816,032 thousand from retained earnings to other component of equity.

(B) Investments accounted for using the equity method

The Company will adjust and increase both of the investments accounted for using the equity method and other equity of NT\$7,231,728 thousand at the date of initial application as a result of the application of IFRS 9.

(C) Others

Consequential amendments on the related disclosures in IFRS 7 were also made as a result of the application of IFRS 9, which include the disclosure requirements related to the initial application of IFRS 9. Therefore more extensive disclosure would have to be made.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

C. IAS 28 “Investments in Associates and Joint Ventures”

The Company will make an election and disclose properly in financial statement on such investment at January 1, 2018.

- (3) Standards or interpretations issued, revised or amended, by IASB but not yet recognized by FSC at the date of issuance of the Company’s financial statements are listed below:

Standards or Interpretations Numbers	The Projects of Standards or Interpretations	Effective Dates
IFRS 16	“Leases”	January 1, 2019
IFRIC 23	“Uncertainty Over Income Tax Treatments”	January 1, 2019
IFRS 17	“Insurance Contracts”	January 1, 2021
IAS 28	“Investments in Associates and Joint Ventures” (Amendment)	January 1, 2019
IFRS 9	“Prepayment Features with Negative Compensation”(Amendment)	January 1, 2019
Improvements to International Financial Reporting Standards (2015-2017 cycle) :		
IFRS 3	“Business Combinations”	January 1, 2019
IFRS 11	“Joint Arrangements”	January 1, 2019
IAS 12	“Income Taxes”	January 1, 2019
IAS 23	“Borrowing Costs”	January 1, 2019
IAS 19	“Employee Benefits”- Plan Amendment, Curtailment or Settlement	January 1, 2019

A. 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.

B. IFRIC 23 “Uncertainty Over Income Tax Treatments”

The Interpretation clarifies application of recognition and measurement requirements in IAS 12 “Income Taxes” when there is uncertainty over income tax treatments.

C. IAS 28 “Investment in Associates and Joint Ventures” — Amendments to IAS 28

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture before it applies IAS 28, and in applying IFRS 9, does not take account of any adjustments that arise from applying IAS 28.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO 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-C, 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 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers ("the Regulations") and TIFRS as endorsed 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.

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.

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

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
			December 31, 2017	December 31, 2016	
MTK	Hsu-Ta Investment Corp.	General investing	100%	100%	-
MTK	MediaTek Singapore Pte. Ltd.	Research, manufacturing and sales	100%	100%	-
MTK	MediaTek Investment Singapore Pte. Ltd.	General investing	100%	100%	-
MTK	Airoha (Cayman) Inc.	General investing	-	100%	1
MTK	MStar Semiconductor Inc.	Research, manufacturing and sales	100%	100%	-

(To be continued)

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO 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
			December 31, 2017	December 31, 2016	
MTK	Hsu-Chuang Investment Corp.	General investing	100%	100%	-
MTK	HFI Innovation Inc.	Intellectual property right management	100%	100%	2
MTK	Airoha Technology Corp.	Research, manufacturing and sales	7%	-	3
Hsu-Ta Investment Corp.	Core Tech Resources Inc.	General investing	100%	100%	-
Hsu-Ta Investment Corp.	MediaTek Capital Corp.	General investing	100%	100%	-
Hsu-Ta Investment Corp.	MediaTek Bangalore Private Limited	Research	0%	0%	-
Hsu-Ta Investment Corp.	Hsu-Si Investment Corp.	General investing	100%	100%	-
Hsu-Ta Investment Corp.	Airoha Technology Corp.	Research, manufacturing and sales	-	-	3
MediaTek Capital Corp.	RollTech Technology Co., Ltd.	Software development	67%	67%	-
MediaTek Capital Corp.	E-Vehicle Semiconductor Technology Co., Ltd.	Research, manufacturing and sales	47%	51%	-
MediaTek Capital Corp.	Chingis Technology Corp.	Research	100%	100%	-
MediaTek Capital Corp.	Velocenet Inc.	Research	100%	100%	-
MediaTek Capital Corp.	Nephos (Taiwan) Inc.	Research	100%	100%	-
MediaTek Capital Corp.	Airoha Technology Corp.	Research, manufacturing and sales	-	-	3

(To be continued)

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO 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
			December 31, 2017	December 31, 2016	
Core Tech Resources Inc.	MediaTek India Technology Pvt. Ltd.	Research	0%	0%	-
Hsu-Si Investment Corp.	Richtek Technology Corp.	Research, manufacturing and sales	100%	100%	4
Hsu-Si Investment Corp.	Airoha Technology Corp.	Research, manufacturing and sales	93%	-	3
Hsu-Si Investment Corp.	Airoha (Cayman) Inc.	General investing	100%	-	1
Richtek Technology Corp.	Richstar Group Co., Ltd.	General investing	100%	100%	4
Richtek Technology Corp.	Ironman Overseas Co., Ltd.	General investing	100%	100%	4
Richtek Technology Corp.	Richtek Europe Holding B.V.	General investing	100%	100%	4
Richtek Technology Corp.	Richtek Holding International Limited	General investing	100%	100%	4
Richtek Technology Corp.	Richpower Microelectronics Corp.	Manufacturing and sales	100%	100%	4
Richtek Technology Corp.	Li-Yu Investment Corp.	General investing	100%	100%	4
Richtek Technology Corp.	Richnex Microelectronics Corp.	Research, manufacturing and sales	79%	77%	4
Richtek Technology Corp.	Richtek Global Marketing Co., Ltd.	General investing	100%	100%	4
Richstar Group Co., Ltd.	Richtek USA Inc.	Sales and marketing service	100%	100%	4
Ironman Overseas Co., Ltd.	Cosmic-Ray Technology Limited	General investing	100%	100%	4
Richtek Europe Holding B.V.	Richtek Europe B.V.	Marketing service	100%	100%	4

(To be continued)

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO 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
			December 31, 2017	December 31, 2016	
Cosmic-Ray Technology Limited	Li-We Technology Corp.	Marketing service	100%	100%	4
Richpower Microelectronics Corp.	Richpower Microelectronics Corporation	Management service	100%	100%	4
Richpower Microelectronics Corp.	Richpower Microelectronics Co., Ltd.	Marketing service	100%	100%	4
Li-Yu Investment Corp.	Corporate Event Limited	Marketing service	51%	51%	4
Richtek Global Marketing Co., Ltd	Richtek Korea LLC.	Sales and marketing service	100%	100%	4
Airoha (Cayman) Inc.	Airotek (Shenzhen) Inc.	Research	100%	-	5
Airoha (Cayman) Inc.	Airotek (Chengdu) Inc.	Research	100%	-	5
Airoha Technology Corp.	Airoha Technology (Samoa) Corp.	General investing	100%	-	3
Gaintech Co. Limited	MediaTek China Limited	General investing	100%	100%	-
Gaintech Co. Limited	MTK Wireless Limited (UK)	Research	100%	100%	-
Gaintech Co. Limited	MediaTek Japan Inc.	Research	100%	100%	-
Gaintech Co. Limited	MediaTek India Technology Pvt. Ltd.	Research	100%	100%	-
Gaintech Co. Limited	MediaTek Korea Inc.	Research	100%	100%	-
Gaintech Co. Limited	Hesine Technologies International Worldwide Inc.	General investing	-	52%	6
Gaintech Co. Limited	Gold Rich International (Samoa) Limited	General investing	100%	100%	-
Gaintech Co. Limited	Smarthead Limited	General investing	100%	100%	-
Gaintech Co. Limited	Ralink Technology (Samoa) Corp.	General investing	100%	100%	-

(To be continued)

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO 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
			December 31, 2017	December 31, 2016	
Gaintech Co. Limited	EcoNet (Cayman) Inc.	General investing	77%	83%	-
Gaintech Co. Limited	MediaTek Wireless FZ-LLC	Technology services	100%	100%	-
Gaintech Co. Limited	Digital Lord Limited	General investing	100%	100%	-
Gaintech Co. Limited	Hsu Chia (Samoa) Investment Ltd.	General investing	100%	100%	-
Gaintech Co. Limited	Hsu Fa (Samoa) Investment Ltd.	General investing	100%	100%	-
Gaintech Co. Limited	Hsu Kang (Samoa) Investment Ltd.	General investing	100%	100%	-
Gaintech Co. Limited	Nephos Pte. Ltd.	Research	100%	100%	-
Gaintech Co. Limited	Nephos Inc.	Research	100%	100%	-
Gaintech Co. Limited	Nephos Cayman Co. Limited	General investing	100%	100%	-
Gaintech Co. Limited	Dynamic Presence Limited	General investing	100%	100%	7
Gaintech Co. Limited	White Dwarf Limited	General investing	100%	100%	8
Gaintech Co. Limited	Zelus Technology (HangZhou) Ltd.	Software development and sales	100%	-	9
MediaTek China Limited	MediaTek (Hefei) Inc.	Research	100%	100%	-
MediaTek China Limited	MediaTek (Beijing) Inc.	Research	100%	100%	-
MediaTek China Limited	MediaTek (Shenzhen) Inc.	Research and technology services	100%	100%	-
MediaTek China Limited	MediaTek (Chengdu) Inc.	Research	100%	100%	-
MediaTek China Limited	MediaTek (Wuhan) Inc.	Research	100%	100%	-
MediaTek China Limited	Xuxin Investment (Shanghai) Inc.	General investing	100%	100%	10
MediaTek China Limited	MediaTek (Shanghai) Inc.	Research	100%	100%	-
MTK Wireless Limited (UK)	MediaTek Sweden AB	Research	100%	100%	-

(To be continued)

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO 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
			December 31, 2017	December 31, 2016	
MTK Wireless Limited (UK)	MediaTek USA Inc.	Research	100%	100%	-
MTK Wireless Limited (UK)	MediaTek Denmark Aps	Research	-	100%	11
MTK Wireless Limited (UK)	MediaTek Wireless Finland Oy	Research	100%	100%	-
Hesine Technologies International Worldwide Inc.	Hesine Technologies, Inc.	Technology services	-	100%	12
Gold Rich International (Samoa) Limited	Gold Rich International (HK) Limited	General investing	100%	100%	-
Digital Lord Limited	Lepower (HK) Limited	General investing	100%	100%	-
Lepower (HK) Limited	Lepower Technologies (Beijing), Inc.	Research, manufacturing and sales	100%	91%	-
E-Vehicle Semiconductor Technology Co., Ltd.	E-Vehicle Holdings Corp.	General investing	100%	100%	-
E-Vehicle Holdings Corp.	E-Vehicle Investment Limited	General investing	100%	100%	-
E-Vehicle Investment Limited	E-Vehicle Semiconductor (Shanghai) Co., Ltd.	Research, manufacturing and sales	100%	100%	-
EcoNet (Cayman) Inc.	Shadow Investment Limited	General investing	100%	100%	-
EcoNet (Cayman) Inc.	EcoNet (HK) Limited	Research and sales	100%	100%	-
EcoNet (Cayman) Inc.	EcoNet Limited	General investing	-	100%	13
EcoNet (HK) Limited	EcoNet (Suzhou) Limited	Research, manufacturing and sales	100%	100%	-
EcoNet (Suzhou) Limited	EcoNet Limited	General investing	100%	-	13
Shadow Investment Limited	MediaTek (Suzhou) Inc.	Research	-	100%	14

(To be continued)

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO 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
			December 31, 2017	December 31, 2016	
Shadow Investment Limited	MediaTek (Nanjing) Inc.	Research	100%	100%	-
Ralink Technology (Samoa) Corp.	AutoChips Inc.	Research, manufacturing and sales	-	83%	15
MediaTek Investment Singapore Pte. Ltd.	MStar Semiconductor B.V.	General investing	-	100%	16
MediaTek Investment Singapore Pte. Ltd.	Lightup International Corp.	General investing	-	100%	17
MediaTek Investment Singapore Pte. Ltd.	MediaTek Bangalore Private Limited	Research	100%	100%	-
MediaTek Investment Singapore Pte. Ltd.	Gaintech Co. Limited	General investing	100%	100%	-
MediaTek Investment Singapore Pte. Ltd.	Cloud Ranger Limited	General investing	100%	100%	-
MStar Semiconductor, Inc.	MStar France SAS	Software development	100%	100%	-
MStar Semiconductor, Inc.	Shunfonger Investment Holding Limited	General investing	100%	100%	-
MStar Semiconductor, Inc.	IStar Technology Ltd.	General investing and sales	100%	100%	-
MStar Semiconductor, Inc.	MStar Co., Ltd.	General investing	100%	100%	-
MStar Semiconductor, Inc.	Digimoc Holdings Limited	General investing	100%	100%	-
MStar Semiconductor, Inc.	MStar Semiconductor UK Ltd.	Software and customer development	100%	100%	-
MStar Semiconductor, Inc.	ILI Technology Corporation	Research, manufacturing and sales	100%	100%	18
MStar Semiconductor, Inc.	AIT Holding Ltd.	General investing	-	100%	19

(To be continued)

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO 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
			December 31, 2017	December 31, 2016	
MStar Semiconductor, Inc.	MStar Technology Pte. Ltd.	Customer development	100%	100%	-
MStar Semiconductor, Inc.	MShining International Corporation	Selling of electronic parts	100%	100%	20
MStar Semiconductor, Inc.	Sigmastar Technology Corp.	Research, manufacturing and sales	100%	-	21
MStar Semiconductor, Inc.	Sigmastar Technology Inc.	General investing	100%	-	22
AIT Holding Ltd.	AIT Management Ltd.	General investing	-	100%	19
MStar Co. Ltd.	MStar Software R&D (Shenzhen), Ltd.	Software and customer development	100%	100%	-
Digimoc Holdings Limited	Bubbly Bay Holdings Limited	General investing	100%	100%	-
MStar Software R&D (Shenzhen), Ltd.	MStar Chen Xi Software Shanghai Ltd.	Software and customer development	100%	100%	-
MStar Semiconductor UK Ltd.	MSilicon Technology Corp.	Research and technology services	100%	100%	23
MStar Technology Pte. Ltd.	MStar Semiconductor India Private Limited	Research and technology services	100%	100%	-
IStar Technology Ltd.	Beijing Ilitek Technology Co. Ltd.	Research and technology services	100%	100%	24
ILI Technology Corporation	ILITEK Holding Inc.	General investing	100%	100%	18
ILITEK Holding Inc.	ILI Technology (SZ) LTD.	Technology services	100%	100%	18
MediaTek (Shenzhen) Inc.	Shanghai ShanShengChuangXin Investment Partnership (Limited Partnership)	General investing	-	2%	25

(To be continued)

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO 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
			December 31, 2017	December 31, 2016	
MediaTek (Shanghai) Inc.	Shanghai ShanShengChuangXin Investment Partnership (Limited Partnership)	General investing	-	2%	25
Nephos Cayman Co. Limited	Nephos (Hefei) Co. Ltd.	Research, manufacturing and sales	63%	100%	26

- For the purpose of reorganization, the 100% ownership of T-Rich Technology (Cayman) Corp., which was previously owned by MTK, was transferred to Hsu-Si Investment Corp. in June 2017. After that, T-Rich Technology (Cayman) Corp. was renamed Airoha (Cayman) Inc.
- MTK established HFI Innovation Inc. in February 2016.
- 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. In July 2017, Hsu-Si Investment acquired the remaining 38% ownership of Airoha. Moreover, Hsu-Si acquire 5% and 17% shares of Airoha from Hsu-Ta Investment Corp. and MediaTek Capital Corp., respectively. Furthermore, MTK spun-off the business unit –Bluetooth related Internet of Things Product Line Business to Airoha, and acquired 7% new shares of the capital increase of Airoha in October 2017.
- 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.
- Airoha (Cayman) Inc. established Airotek (Shenzhen) Inc. and Airotek (Chengdu) Inc. in September 2017.
- For the purpose of reorganization, Hesine Technologies International Worldwide Inc. has been liquidated in November 2017.
- Gaintech Co. Limited established Dynamic Presence Limited in April 2016.
- 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.
- Gaintech Co. Limited established Zelus Technology (HangZhou) Ltd. in October 2017.
- MediaTek (Shanghai) Inc. was renamed Xuxin Investment (Shanghai) Inc. in March 2016.
- For the purpose of reorganization, MediaTek Denmark Aps has been liquidated and returned the capital in May 2017.
- For the purpose of reorganization, Hesine Technologies, Inc. has been liquidated in June 2017.
- EcoNet (Cayman) Inc. established EcoNet Limited in October 2016. For the purpose of reorganization, the 100% ownership of EcoNet Limited, which was previously owned by EcoNet (Cayman) Inc., was transferred to EcoNet (Suzhou) Limited in December 2017.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

14. For the purpose of reorganization, MediaTek (Suzhou) Inc. has been liquidated and returned the capital in August 2017.
15. Ralink Technology (Samoa) Corp. transferred the shareholding rights of AutoChips Inc. and derecognized it in March 2017.
16. For the purpose of reorganization, MStar Semiconductor B.V. has been liquidated and returned the capital in June 2017.
17. For the purpose of reorganization, the 100% ownership of Light Up International Corp. ("Light Up International"), which was previously owned by MediaTek Investment Singapore Pte. Ltd. was transferred to Hsu-Ta Investment Corp. ("Hsu-Ta Investment") in November 2017. Moreover, Light Up International was dissolved due to merger with Hsu-Ta Investment in December 2017.
18. 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.
19. For the purpose of reorganization, AIT Holding Ltd. and AIT Management Ltd. have been liquidated and returned the capital in July 2017.
20. MStar Semiconductor, Inc. established MShining International Corporation in March 2016.
21. MStar Semiconductor, Inc. established Sigmastar Technology Corp. in September 2017.
22. MStar Semiconductor, Inc. established Sigmastar Technology Inc. in October 2017.
23. MStar Semiconductor UK Ltd. established MSilicon Technology Corp. in March 2016.
24. 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.
25. 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. Shanghai ShanShengChuangXin Investment Partnership (Limited Partnership) has been removed from the consolidated entities as the Company lost control over it as of September 2017.
26. Nephos Cayman Co. Limited established Nephos (Hefei) Co. Ltd. in July 2016.

Foreign currency transactions

The Company's consolidated financial statements are presented in NT\$, which is also the parent company's functional currency. Each entity in the Company determines its functional currency upon its primary economic environment and items included in the financial statements of each entity are measured using that functional currency.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Transactions in foreign currencies are initially recorded by the Company's entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange ruling at the reporting date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

All exchange differences arising on the settlement of monetary items or on translating monetary items are taken to profit or loss in the period in which they arise except for the following:

- A. Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.
- B. Foreign currency items within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are accounted for based on the accounting policy for financial instruments.
- C. Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Translation of financial statements in foreign currency

The assets and liabilities of foreign operations are translated into New Taiwan Dollars at the closing rate of exchange prevailing at the reporting date and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized. On the partial disposal of foreign operations that result in a loss of control, loss of significant influence or joint control but retain partial equity is considering as disposal.

On the partial disposal of a subsidiary that includes a foreign operation that does not result in a loss of control, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is re-attributed to the non-controlling interests in that foreign operation. In partial disposal of an associate or jointly controlled entity that includes a foreign operation that does not result in a loss of significant influence or joint control, only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Any goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and expressed in its functional currency.

Current and non-current distinction

An asset is classified as current when:

- A. The Company expects to realize the asset, or intends to sell or consume it, in its normal operating cycle
- B. The Company holds the asset primarily for the purpose of trading
- C. The Company expects to realize the asset within twelve months after the reporting period
- D. The asset is cash or cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

A liability is classified as current when:

- A. The Company expects to settle the liability in its normal operating cycle
- B. The Company holds the liability primarily for the purpose of trading
- C. The liability is due to be settled within twelve months after the reporting period
- D. The Company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities are classified as non-current.

Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short-term, highly liquid time deposits or investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are recognized initially at fair value plus or minus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

A. Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

Financial assets of the Company are classified as financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and loans and receivables. The Company determines the classification of its financial assets at initial recognition.

a. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets at fair value through profit or loss are measured at fair value with changes in fair value recognized in profit or loss. Dividends or interests on financial assets at fair value through profit or loss are recognized in profit or loss (including those received during the period of initial investment).

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

A financial asset is classified as held for trading if:

- (a) it is acquired or incurred principally for the purpose of selling or repurchasing it in short term;
- (b) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- (c) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss; or a financial asset may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

- (a) it eliminates or significantly reduces a measurement or recognition inconsistency; or
- (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel.

If financial assets do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

b. Available-for-sale financial assets

Available-for-sale investments are non-derivative financial assets that are designated as available-for-sale or those not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets, or loans and receivables.

Foreign exchange gains and losses and interest calculated using the effective interest method relating to monetary available-for-sale financial assets, or dividends on an available-for-sale equity instrument, are recognized in profit or loss. Subsequent measurement of available-for-sale financial assets at fair value is recognized in equity until the investment is derecognized, at which time the cumulative gain or loss is recognized in profit or loss.

If equity instrument investments do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

c. Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Company has the positive intention and ability to hold it to maturity, other than those that are designated as available-for-sale, classified as financial assets at fair value through profit or loss, or meet the definition of loans and receivables.

After initial measurement held-to-maturity financial assets are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

d. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Company upon initial recognition designates as available for sale, classified as at fair value through profit or loss, or those for which the holder may not recover substantially all of its initial investment.

Loans and receivables are separately presented on the balance sheet as receivables or debt instrument investment for which no active market exists. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

e. Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that an individual or a group of financial asset other than the financial assets at fair value through profit or loss is impaired. An individual or a group of financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more loss events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset. The carrying amount of the financial asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss.

A significant or prolonged decline in the fair value of an available-for-sale equity instrument below its cost is considered a loss event.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Other loss events include:

- (a) significant financial difficulty of the issuer or obligor; or
- (b) a breach of contract, such as a default or delinquency in interest or principal payments;
or
- (c) it becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- (d) the disappearance of an active market for that financial asset because of financial difficulties.

For held-to-maturity financial assets and loans and receivables measured at amortized cost, if there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. Interest income is accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Receivables together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.

In the case of equity instruments classified as available-for-sale, where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss - is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recognized in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

f. Derecognition of financial assets

A financial asset is derecognized when:

- (a) The rights to receive cash flows from the asset have expired
- (b) The Company has transferred the asset and substantially all the risks and rewards of the asset have been transferred
- (c) The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the consideration received or receivable including any cumulative gain or loss that had been recognized in other comprehensive income, is recognized in profit or loss.

B. Financial liabilities and equity

a. Classification between liabilities or equity

The Company classifies the instrument issued as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, and an equity instrument.

b. Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The transaction costs of an equity transaction are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

c. Financial liabilities

Financial liabilities within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are classified as financial liabilities at fair value through profit or loss or financial liabilities measured at amortized cost upon initial recognition.

(a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Gains or losses on the subsequent measurement of liabilities held for trading including interest paid are recognized in profit or loss.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

A financial liability is classified as held for trading if:

- i. it is acquired or incurred principally for the purpose of selling or repurchasing it in short term;
- ii. on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- iii. it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss; or a financial liability may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

- i. it eliminates or significantly reduces a measurement or recognition inconsistency; or
- ii. a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel.

If the financial liabilities at fair value through profit or loss do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial liabilities measured at cost on balance sheet and carried at cost as at the reporting date.

(b) Financial liabilities at amortized cost

Financial liabilities measured at amortized cost include interest bearing loans and borrowings that are subsequently measured using the effective interest rate method after initial recognition. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or transaction costs.

(c) Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

C. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Derivative financial instrument

The Company uses derivative financial instruments to hedge its foreign currency risks and interest rate risks. A derivative is classified in the balance sheet as financial assets or liabilities at fair value through profit or loss (held for trading) except for derivatives that are designated effective hedging instruments which are classified as derivative financial assets or liabilities for hedging.

Derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges and hedges of net investments in foreign operations, which is recognized in equity.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss.

Fair value measurement

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 fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- A. In the principal market for the asset or liability; or
- B. In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants in their economic best interest.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques which are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Inventories

Costs incurred in bringing each inventory to its present location and condition. Raw materials are valued at purchase cost. Finish goods and work in progress include cost of direct materials and related manufacturing overheads. Inventories are valued at lower of cost and net realizable value item by item. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Inventories that were not sold or moved for further production were assessed allowance and set aside to reflect the potential loss from stock obsolescence.

Investments accounted for using the equity method

The Company's investment in its associate is accounted for using the equity method other than those that meet the criteria to be classified as held for sale. An associate is an entity over which the Company has significant influence. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Under the equity method, the investment in the associate or an investment in a joint venture is carried in the balance sheet at cost and adjusted thereafter for the post-acquisition change in the Company's share of net assets of the associate or joint venture. After the interest in the associate or joint venture is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. Unrealized gains and losses resulting from transactions between the Company and the associate or joint venture are eliminated to the extent of the Company's related interest in the associate or joint venture.

When changes in the net assets of an associate or a joint venture occur and not those that are recognized in profit or loss or other comprehensive income and do not affect the Company's percentage of ownership interests in the associate or joint venture, the Company recognizes such changes in equity based on its percentage of ownership interests. The resulting capital surplus recognized will be reclassified to profit or loss at the time of disposing the associate or joint venture on a pro rata basis.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

When the associate or joint venture issues new shares, and the Company's interest in an associate or a joint venture is reduced or increased as the Company fails to acquire shares newly issued in the associate or joint venture proportionately to its original ownership interest, the increase or decrease in the interest in the associate or joint venture is recognized in capital surplus and investments accounted for using the equity method. When the interest in the associate or joint venture is reduced, the cumulative amounts previously recognized in other comprehensive income are reclassified to profit or loss or other appropriate items. The aforementioned capital surplus recognized is reclassified to profit or loss on a pro rata basis when the Company disposes the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company.

The Company determines at each reporting date whether there is any objective evidence that the investment in the associate or an investment in a joint venture is impaired. If this is the case the Company calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the amount in the 'share of profit or loss of an associate' in the statement of comprehensive income.

Upon loss of significant influence over the associate or joint venture, the Company measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. When significant parts of property, plant and equipment are required to be replaced in intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciation, respectively. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of IAS 16 "Property, plant and equipment". When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

Buildings and facilities	3~50 years
Machinery and equipment	3~8 years
Computer and telecommunication equipment	3~5 years
Testing equipment	3~5 years
Miscellaneous equipment	2~10 years

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognized in profit or loss.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate, and are treated as changes in accounting estimates.

Investment property

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

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

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

Assets are transferred to or from investment properties when there is a change in use.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Leases

A. The Company as a lessee

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

B. The Company as a lessor

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

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

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit or loss for the year in which the expenditure is incurred.

Expenditures related to research activities as well as those expenditures not meeting the criteria for capitalization are expensed when incurred. Expenditures related to development activities meeting the criteria for capitalization are capitalized.

The Company's intangible assets mainly include trademarks, patents, software, customer relationship, IPs and others which are acquired from third parties or business combinations. A summary of the amortization policies applied to the Company's intangible assets is as follows:

Trademarks	Patents	Software	Customer relationship	IPs and others
2~7 years	2~7 years	2~5 years	7~10 years	2~7 years

Abovementioned intangible assets are amortized on a straight-line basis over the estimated useful life.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

The Company's intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss.

Impairment of non-financial assets

The Company assesses at the end of each reporting period whether there is any indication that an asset in the scope of IAS 36 "Impairment of Assets" may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been an increase in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

A cash generating unit, or groups of cash-generating units, to which goodwill has been allocated is tested for impairment annually at the same time, irrespective of whether there is any indication of impairment. If an impairment loss is to be recognized, it is first allocated to reduce the carrying amount of any goodwill allocated to the cash generating unit (group of units), then to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units). Impairment losses relating to goodwill cannot be reversed in future periods for any reason.

An impairment loss of continuing operations or a reversal of such impairment loss is recognized in profit or loss.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. Any difference between the carrying amount and the consideration is recognized in equity.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. The following specific recognition criteria must also be met before revenue is recognized:

A. Sale of goods

Revenue from the sale of goods is recognized when all the following conditions have been satisfied:

- a. the significant risks and rewards of ownership of the goods have passed to the buyer;
- b. neither continuing managerial involvement nor effective control over the goods sold have been retained;
- c. the amount of revenue can be measured reliably;
- d. it is probable that the economic benefits associated with the transaction will flow to the entity; and
- e. the costs incurred in respect of the transaction can be measured reliably.

The amount of revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by entity. The Company estimates sales returns and allowance based on historical experience and other known factors at the time of sale, which reduces the operating revenue.

B. Interest income

For all financial assets measured at amortized cost (including loans and receivables and held-to-maturity financial assets) and available-for-sale financial assets, interest income is recorded using the effective interest rate method and recognized in profit or loss.

C. Dividends

Revenue is recognized when the Company's right to receive the payment is established.

Post-employment benefits

All regular employees of MTK and its domestic subsidiaries are entitled to a pension plan that is managed by an independently administered pension fund committee. Fund assets are deposited under the committee's name in the specific bank account and hence, not associated with MTK and its domestic subsidiaries. Therefore, fund assets are not included in the Company's consolidated financial statements. Pension benefits for employees of the overseas subsidiaries and the branches are provided in accordance with the respective local regulations.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

For the defined contribution plan, MTK and its domestic subsidiaries will make a monthly contribution of no less than 6% of the monthly wages of the employees subject to the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due. Overseas subsidiaries make contribution to the plan based on the requirements of local regulations.

Post-employment benefit plan that is classified as a defined benefit plan uses the Projected Unit Credit Method to measure its obligations and costs based on actuarial assumptions. Re-measurements, comprising of the effect of the actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets, excluding net interest, are recognized as other comprehensive income with a corresponding debit or credit to retained earnings in the period in which they occur. Past service costs are recognized in profit or loss on the earlier of:

- A. The date of the plan amendment or curtailment; and
- B. The date that the Company recognizes related restructuring or termination costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payment.

Share-based payment transactions

The cost of equity-settled transactions between the Company and its employees is recognized based on the fair value of the equity instruments granted. The fair value of the equity instruments is determined by using an appropriate pricing model.

The cost of equity-settled transactions is recognized, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it fully vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substitutes for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

The cost of restricted shares issued is recognized as salary expense based on the fair value of the equity instruments on the grant date, together with a corresponding increase in other capital reserves in equity, over the vesting period. The Company recognizes unearned employee salary which is a transitional contra equity account; the balance in the account will be recognized as salary expense over the passage of vesting period. When the subsidiaries issue restricted shares, the equity variances made from treating as above accounting policy are attributable to non-controlling interests in the consolidated financial statements.

Income taxes

Income tax expense (income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

A. Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax relating to items recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or equity and not in profit or loss.

Income tax on unappropriated earnings (excluding earnings from foreign consolidated subsidiaries) at a rate of 10% is expensed in the year the shareholders approved the appropriation of earnings which is the year subsequent to the year the earnings are generated.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

B. Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- a. Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- b. In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- a. Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- b. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets are reassessed at each reporting date and are recognized accordingly.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred, the identifiable assets acquired and liabilities assumed are measured at acquisition date fair value. For each business combination, the acquirer measures any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are accounted for as expenses in the periods in which the costs are incurred and are classified under administrative expenses.

When the Company acquires a business, it assesses the assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at the acquisition-date fair value. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" either in profit or loss or as a change to other comprehensive income. However, if the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured as the amount of the excess of the aggregate of the consideration transferred and the non-controlling interest over the net fair value of the identifiable assets acquired and the liabilities assumed. If this aggregate is lower than the fair value of the net assets acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which the goodwill is so allocated represents the lowest level within the Company at which the goodwill is monitored for internal management purpose and is not larger than an operating segment before aggregation.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Non-current assets held for sale

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

5. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Company's consolidated financial statements require management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. The judgments and estimates made by the Company are based on historical experience and other related factors and continuously being evaluated and adjusted. Please refer to below description:

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that may cause a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

A. Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using valuation techniques including the income approach (for example the discounted cash flows model) or market approach. Changes in assumptions about these factors could affect the reported fair value of the financial instruments. Please refer to Note 12 for more details.

B. Valuation of inventory

Inventories are stated at the lower of cost or net realizable value, and the Company uses judgment and estimate to determine the net realizable value of inventory at the end of each reporting period.

Due to the rapid technological changes, the Company estimates the net realizable value of inventory for obsolescence and unmarketable items at the end of reporting period and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions of future demand within a specific time period, therefore it may cause material adjustments.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

C. Income tax

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could cause future adjustments to tax income and expense already recorded. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective company's domicile.

Deferred tax assets are recognized for all carryforward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred tax assets determined to be recognized is based upon the likely timing and the level of future taxable profits and taxable temporary differences together with future tax planning strategies.

D. Revenue recognition - sales returns and discounts

The Company estimates sales returns and discounts based on historical experience and other known factors at the time of sale, which reduces the sales. The management periodically reviews the adequacy of the estimation used.

6. Contents of Significant Accounts

(1) Cash and cash equivalents

	December 31, 2017	December 31, 2016
Cash on hand and petty cash	\$ 5,845	\$ 5,637
Checking and savings accounts	17,814,718	16,264,596
Time deposits	127,397,008	123,322,255
Cash equivalents - repurchase agreements	120,805	968,370
Total	<u>\$ 145,338,376</u>	<u>\$ 140,560,858</u>

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

Cash and cash equivalents were not pledged.

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

	December 31, 2017	December 31, 2016
<u>Current</u>		
<u>Held for trading financial assets</u>		
Forward exchange contracts	\$ 27	\$ 1,850
<u>Financial assets designated upon initial recognition at fair value through profit or loss</u>		
Interest rate-linked deposits	269,987	-
Credit-linked deposits	229,150	773,895
Bonds	225,343	-
Exchange rate-linked deposits	-	609,376
Index-linked deposits	-	585,381
Subtotal	724,480	1,968,652
Total	\$ 724,507	\$ 1,970,502
<u>Held for trading financial liabilities</u>		
Forward exchange contracts	\$ 18,144	\$ 45,098
<u>Noncurrent</u>		
<u>Financial assets designated upon initial recognition at fair value through profit or loss</u>		
Credit-linked deposits	\$ 3,202,920	\$ 2,747,046
Bonds	908,734	1,110,627
Interest rate-linked deposits	504,752	845,741
Index-linked deposits	-	293,679
Total	\$ 4,616,406	\$ 4,997,093

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

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

	December 31, 2017	December 31, 2016
<u>Current</u>		
Stocks	\$ 15,899,578	\$ 4,941,140
Bonds	5,695,430	2,380,979
Funds	1,696,820	2,083,241
Depository receipts	-	23,314
Subtotal	<u>23,291,828</u>	<u>9,428,674</u>
<u>Noncurrent</u>		
Stocks	9,946,693	10,456,103
Funds	2,409,272	3,036,766
Bonds	1,989,679	5,421,848
Subtotal	<u>14,345,644</u>	<u>18,914,717</u>
Total	<u><u>\$ 37,637,472</u></u>	<u><u>\$ 28,343,391</u></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 year ended December 31, 2017.

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) Financial assets measured at cost

	December 31, 2017	December 31, 2016
<u>Available-for-sale financial assets-noncurrent</u>		
Capital	\$ 7,651,545	\$ 5,539,220
Non-publicly traded stocks	4,983,757	1,355,967
Total	<u><u>\$ 12,635,302</u></u>	<u><u>\$ 6,895,187</u></u>

The Company assessed and concluded its financial assets measured at cost were partially impaired and recorded an impairment loss of NT\$352,894 thousand and NT\$71,172 thousand for the years ended December 31, 2017 and 2016, respectively.

Financial assets measured at cost were not pledged.

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(5) Debt instrument investments for which no active market exists**

	December 31, 2017	December 31, 2016
<u>Current</u>		
Bonds	\$ 746,200	\$ 1,486,607
Time deposits	19,245	18,885
Subtotal	<u>765,445</u>	<u>1,505,492</u>
<u>Noncurrent</u>		
Bonds	290,000	-
Time deposits	107,880	257,928
Subtotal	<u>397,880</u>	<u>257,928</u>
Total	<u>\$ 1,163,325</u>	<u>\$ 1,763,420</u>

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

(6) Trade receivables

	December 31, 2017	December 31, 2016
Trade receivables	\$ 25,424,012	\$ 27,828,309
Less: allowance for doubtful debts	(331,984)	(294,701)
Less: allowance for sales returns and discounts	(8,199,443)	(7,055,613)
Total	<u>\$ 16,892,585</u>	<u>\$ 20,477,995</u>

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
Charge for the current period	-	52,612	52,612
Write-off for uncollectable accounts	-	(10,702)	(10,702)
Exchange differences	-	(4,627)	(4,627)
As of December 31, 2017	<u>\$ -</u>	<u>\$ 331,984</u>	<u>\$ 331,984</u>

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO 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	-	(125,735)	(125,735)
Write-off for uncollectable accounts	-	(9,484)	(9,484)
Acquired through business combinations	-	66,452	66,452
Exchange differences	-	(96)	(96)
As of December 31, 2016	\$ -	\$ 294,701	\$ 294,701

Aging analysis of trade receivables were as follows:

As of	Neither past due nor impaired	Past due but not impaired		Total
		1 to 90 days	More than 91 days	
December 31, 2017	\$ 15,926,656	\$ 965,084	\$ 845	\$ 16,892,585
December 31, 2016	\$ 19,232,040	\$ 1,245,723	\$ 232	\$ 20,477,995

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\$2,515,843 thousand and NT\$2,084,674 thousand as of December 31, 2017 and 2016, respectively.

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

A. As of December 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	-	\$ 57,076	\$ -	\$ 57,076	\$ 99,000
BNP Paribas	-	12,587	-	12,587	107,000
HSBC	-	11	-	11	350
Taipei Fubon Commercial Bank	-	14,615	-	14,615	15,000
Total		\$ 84,289	\$ -	\$ 84,289	\$ 221,350

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO 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

(7) Inventories

	December 31, 2017	December 31, 2016
Raw materials	\$ 2,601,306	\$ 2,896,421
Work in progress	11,839,039	17,056,723
Finished goods	12,099,269	13,969,770
Net amount	\$ 26,539,614	\$ 33,922,914

For the years ended December 31, 2017 and 2016, the cost of inventories recognized in expenses amounted to NT\$153,330,436 thousand and NT\$177,321,882 thousand, including the write-down of inventories of NT\$5,753,615 thousand and NT\$2,240,185 thousand for the years ended December 31, 2017 and 2016, respectively.

Inventories were not pledged.

(8) Prepayments

	December 31, 2017	December 31, 2016
Prepaid expenses	\$ 534,954	\$ 447,418
Input tax	235,532	406,737
Others	619,946	651,066
Total	\$ 1,390,432	\$ 1,505,221

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

(9) Investments accounted for using the equity method

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

Investees	December 31, 2017		December 31, 2016	
	Carrying amount	Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)
Investments in associates:				
MOUNTAIN CAPITAL FUND, L.P.	\$ 810,527	42	\$ 876,839	49
FONTAINE CAPITAL FUND, L.P.	569,146	57	575,546	55
Airoha Technology Corp.	-	-	614,920	26
Others	530,159	-	610,373	-
Subtotal	1,909,832		2,677,678	
Investments in jointly controlled entities:				
Yuan Ke (Pingtan) Investment Fund Limited Partnership	3,867,272	81	3,228,117	77
Subtotal	3,867,272		3,228,117	
Total	\$ 5,777,104		\$ 5,905,795	

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.

Subsidiary Hsu-Si Investment acquired 24,230,620 shares (approximately 40% of Airoha's 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. (29) 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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

(1) Investments in associates

	For the years ended December 31	
	2017	2016
(Loss) profit from continuing operations	\$ (13,650)	\$ 765,510
Other comprehensive income (post-tax)	6,693	(14,037)
Total comprehensive income	<u>\$ (6,957)</u>	<u>\$ 751,473</u>

(2) Investments in jointly controlled entities

	For the years ended December 31	
	2017	2016
Profit (loss) from continuing operations	\$ 476,047	\$ (2,306)
Other comprehensive income (post-tax)	-	-
Total comprehensive income	<u>\$ 476,047</u>	<u>\$ (2,306)</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 December 31, 2017 and 2016.

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

(10) Property, plant and equipment

	Land	Buildings and facilities	Machinery equipment	Computer and telecommunication equipment	Testing equipment	Miscellaneous equipment	Construction in progress and equipment awaiting examination	Total
Cost:								
As of January 1, 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	86,980	593,228	100,699	1,077,842	1,000,815	442,229	784,097	4,085,890
Additions-acquired through business combinations	-	-	98,294	-	-	16,906	-	115,200
Disposals	-	(4,356)	(4,859)	(327,897)	(209,998)	(487,995)	(17,371)	(1,052,476)
Transfers	1,089	5,449,594	25,376	(4,287)	(22,398)	91,768	(5,885,816)	(344,674)
Exchange differences	(3)	(108,553)	(4,936)	(56,868)	(27,634)	(42,110)	(70,760)	(310,864)
As of December 31, 2017	<u>\$ 5,196,705</u>	<u>\$ 27,212,618</u>	<u>\$ 1,425,053</u>	<u>\$ 5,689,417</u>	<u>\$ 7,602,174</u>	<u>\$ 2,305,629</u>	<u>\$ 846,426</u>	<u>\$ 50,278,022</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	2,020,423	303,280	1,144,287	982,810	512,127	1,420,336	6,394,668
Additions-acquired through business combinations	142,453	607,570	134,893	-	54,211	30,528	16,080	985,735
Disposals	-	(87,632)	(5,144)	(305,934)	(246,582)	(176,553)	-	(821,845)
Transfers	(168,559)	3,455,583	(8,276)	(28,829)	292,111	(26,411)	(3,999,239)	(483,620)
Exchange differences	3	(519,274)	(2,359)	(160,200)	(210,517)	(69,677)	(752,658)	(1,714,682)
As of December 31, 2016	<u>\$ 5,108,639</u>	<u>\$ 21,282,705</u>	<u>\$ 1,210,479</u>	<u>\$ 5,000,627</u>	<u>\$ 6,861,389</u>	<u>\$ 2,284,831</u>	<u>\$ 6,036,276</u>	<u>\$ 47,784,946</u>

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO 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	-	657,038	263,512	989,383	1,038,710	591,237	-	3,539,880
Disposals	-	(3,442)	(4,683)	(316,705)	(204,754)	(480,093)	-	(1,009,677)
Transfers	-	(10,797)	6,597	(4,276)	(25,139)	615	-	(33,000)
Exchange differences	-	(3,160)	(1,387)	(33,420)	(13,518)	(33,542)	-	(85,027)
As of December 31, 2017	<u>\$ -</u>	<u>\$ 3,543,549</u>	<u>\$ 535,742</u>	<u>\$ 3,407,765</u>	<u>\$ 4,496,269</u>	<u>\$ 1,356,057</u>	<u>\$ -</u>	<u>\$ 13,339,382</u>
As of January 1, 2016	\$ -	\$ 2,491,917	\$ 80,014	\$ 2,326,856	\$ 3,178,509	\$ 957,317	\$ -	\$ 9,034,613
Depreciation	-	513,924	199,786	860,368	909,347	575,939	-	3,059,364
Disposals	-	(37,566)	(3,714)	(296,656)	(236,583)	(163,796)	-	(738,315)
Transfers	-	(33,908)	(2,898)	(11,387)	(6,820)	(30,750)	-	(85,763)
Exchange differences	-	(30,457)	(1,485)	(106,398)	(143,483)	(60,870)	-	(342,693)
As of December 31, 2016	<u>\$ -</u>	<u>\$ 2,903,910</u>	<u>\$ 271,703</u>	<u>\$ 2,772,783</u>	<u>\$ 3,700,970</u>	<u>\$ 1,277,840</u>	<u>\$ -</u>	<u>\$ 10,927,206</u>
Net carrying amount as of:								
December 31, 2017	<u>\$ 5,196,705</u>	<u>\$23,669,069</u>	<u>\$ 889,311</u>	<u>\$ 2,281,652</u>	<u>\$ 3,105,905</u>	<u>\$ 949,572</u>	<u>\$ 846,426</u>	<u>\$ 36,938,640</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>

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

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

(11) Investment property

	Land	Buildings	Total
Cost:			
As of January 1, 2017	\$ 199,661	\$ 490,073	\$ 689,734
Addition	-	1,436	1,436
Transfers	1,875	253,368	255,243
Exchange differences	-	(5,603)	(5,603)
As of December 31, 2017	<u>\$ 201,536</u>	<u>\$ 739,274</u>	<u>\$ 940,810</u>
As of January 1, 2016	\$ 218,885	\$ 56,857	\$ 275,742
Addition	475	257	732
Transfers	(19,699)	432,959	413,260
As of December 31, 2016	<u>\$ 199,661</u>	<u>\$ 490,073</u>	<u>\$ 689,734</u>
Depreciation and impairment:			
As of January 1, 2017	\$ -	\$ 38,326	\$ 38,326
Depreciation	-	18,142	18,142
Transfers	-	10,915	10,915
Exchange differences	-	(224)	(224)
As of December 31, 2017	<u>\$ -</u>	<u>\$ 67,159</u>	<u>\$ 67,159</u>
As of January 1, 2016	\$ -	\$ 152	\$ 152
Depreciation	-	2,014	2,014
Transfers	-	36,198	36,198
Exchange differences	-	(38)	(38)
As of December 31, 2016	<u>\$ -</u>	<u>\$ 38,326</u>	<u>\$ 38,326</u>
Net carrying amount as of:			
December 31, 2017	<u>\$ 201,536</u>	<u>\$ 672,115</u>	<u>\$ 873,651</u>
December 31, 2016	<u>\$ 199,661</u>	<u>\$ 451,747</u>	<u>\$ 651,408</u>

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

	For the years ended December 31,	
	2017	2016
Rental income from investment properties	\$ 75,014	\$ 11,613
Less:		
Direct operating expenses from investment properties generating rental income	(18,142)	(2,014)
Total	\$ 56,872	\$ 9,599

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

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

Based on comparative approach:	December 31, 2017	December 31, 2016
Fair value	\$ 1,136,818	\$ 697,311
Based on comparative approach and income approach:	December 31, 2017	December 31, 2016
Fair value	\$ 262,578	\$ 254,334
Income capitalization rate	0.89%-2.64%	1.23%-2.67%

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(12) Intangible assets

	Trademarks	Software	Customer relationship	Patents, IPs and others	Goodwill	Total
Cost:						
As of January 1, 2017	\$ 772,487	\$ 2,015,534	\$ 5,114,146	\$ 8,716,232	\$ 63,386,805	\$ 80,005,204
Additions-acquired separately	-	934,627	-	3,418,503	-	4,353,130
Additions-acquired through business combinations	-	53,514	-	1,304,913	2,039,366	3,397,793
Disposals	-	(26,983)	-	(3,606,986)	-	(3,633,969)
Transfers	-	1,848	-	-	64,130	65,978
Exchange differences	-	(1,407)	-	(189,747)	(43,376)	(234,530)
As of December 31, 2017	<u>\$ 772,487</u>	<u>\$ 2,977,133</u>	<u>\$ 5,114,146</u>	<u>\$ 9,642,915</u>	<u>\$ 65,446,925</u>	<u>\$ 83,953,606</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	-	220,874	-	146,038	-	366,912
Additions-acquired through business combinations	-	23,297	-	73,618	161	97,076
Disposals	-	(3,566)	-	(1,791)	-	(5,357)
Transfers	-	(4,247)	7,881	(1,745)	(238)	1,651
Exchange differences	-	(1,643)	-	(60,150)	(16,018)	(77,811)
As of December 31, 2016	<u>\$ 772,487</u>	<u>\$ 2,015,534</u>	<u>\$ 5,114,146</u>	<u>\$ 8,716,232</u>	<u>\$ 63,386,805</u>	<u>\$ 80,005,204</u>

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO 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	112,599	520,212	676,979	2,342,537	-	3,652,327
Disposals	-	(26,396)	-	(3,606,986)	-	(3,633,382)
Exchange differences	-	1,238	-	(86,307)	-	(85,069)
As of December 31, 2017	<u>\$ 392,194</u>	<u>\$ 2,044,968</u>	<u>\$ 2,118,267</u>	<u>\$ 3,369,097</u>	<u>\$ -</u>	<u>\$ 7,924,526</u>
As of January 1, 2016	\$ 166,996	\$ 1,138,028	\$ 801,037	\$ 2,085,999	\$ -	\$ 4,192,060
Amortization	112,599	410,984	640,251	2,670,866	-	3,834,700
Disposals	-	(2,657)	-	(1,791)	-	(4,448)
Transfers	-	30	-	(968)	-	(938)
Exchange differences	-	3,529	-	(34,253)	-	(30,724)
As of December 31, 2016	<u>\$ 279,595</u>	<u>\$ 1,549,914</u>	<u>\$ 1,441,288</u>	<u>\$ 4,719,853</u>	<u>\$ -</u>	<u>\$ 7,990,650</u>
Net carrying amount as of:						
December 31, 2017	<u>\$ 380,293</u>	<u>\$ 932,165</u>	<u>\$ 2,995,879</u>	<u>\$ 6,273,818</u>	<u>\$ 65,446,925</u>	<u>\$ 76,029,080</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>

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(13) Impairment testing of goodwill

The Company's goodwill allocated to each of cash-generating units or groups of cash-generating units is expected to benefit from synergies of the business combination. Key assumptions used in impairment testing are as follows:

The recoverable amount of the cash-generating unit is determined based on the value-in-use calculated using cash flow projections discounted by the pre-tax discount rate from financial budgets approved by management covering a five-year period. The projected cash flows reflect the change in demand for products and services. As a result of the analysis, the Company did not identify any impairment for the goodwill of NT\$65,446,925 thousand.

Key assumptions used in value-in-use calculations

The calculation of value-in-use for the cash-generating unit is most sensitive to the following assumptions:

- (a) Gross margin
- (b) Discount rates
- (c) Growth rates of sales of budget period

Gross margins - Gross margins are based on the gross margins of latest fiscal year and future trend of the market.

Discount rates - Discount rates reflect the current market assessment of the risks specific to each cash generating unit (including the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted). The discount rate was estimated based on the weighted average cost of capital (WACC) for the Company, taking into account the particular situations of the Company and its operating segments. The WACC includes both the cost of liabilities and cost of equity. The cost of equity is derived from the expected returns of the Company's investors on capital, where the cost of liabilities is measured by the interest bearing loans that the Company has obligation to settle.

Growth rates of sales estimates - The growth rate of sales were estimated by historical experience. The long-term average growth rate the Company predicted was adjusted by considering the product life cycle and the macroeconomic environment.

Sensitivity to changes in assumptions

With regard to the assessment of value-in-use of the cash-generating unit, the Company believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(14) 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 year ended December 31, 2017.

(15) Short-term borrowings

	December 31, 2017	December 31, 2016
Unsecured bank loans	<u>\$ 64,315,682</u>	<u>\$ 54,523,984</u>
Interest rates	<u>1.66~5%</u>	<u>0.85~1.94%</u>

(16) Other payables

	December 31, 2017	December 31, 2016
Accrued salaries and bonuses	\$ 18,688,236	\$ 19,205,041
Accrued royalties	1,836,863	2,208,453
Others	15,271,191	12,524,501
Total	<u>\$ 35,796,290</u>	<u>\$ 33,937,995</u>

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

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

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

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

Lenders	As of		Maturity date and terms of repayment
	December 31,	Interest	
	2016	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 payments.
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 payments.
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 payments.
Total	419,086		
Less: current portion	(18,425)		
Noncurrent portion	<u>\$ 400,661</u>		

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(18) Post-employment benefits plans

Defined contribution plan

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

Pension expenses under the defined contribution plan for the years ended December 31, 2017 and 2016 were NT\$1,611,309 thousand and NT\$1,565,151 thousand, respectively.

Defined benefits plan

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

The Ministry of Labor is in charge of establishing and implementing the fund utilization plan in accordance with the regulations for revenues, expenditures, safeguard and utilization of the labor retirement fund. The pension fund is invested in-house or under mandation, based on a passive-aggressive investment strategy for long-term profitability. The Ministry of Labor establishes risk management mechanism based on the assessment of risk factors including market risk, credit risk and liquidity risk, in order to maintain adequate flexibility to achieve targeted return without over-exposure of risk. With regard to utilization of the pension fund, the minimum earnings in the annual distributions on the final financial statement shall not be less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Treasury funds can be used to cover the deficits after the approval of the competent authority. As the Company does not participate in the operation and management of the pension fund, no disclosure on the fair value of the plan assets categorized in different classes could be made in accordance with IAS 19. The Company expects to contribute NT\$8,187 thousand to its defined benefit plan during the 12 months beginning after December 31, 2017.

The weighted average duration of the defined benefit obligation was 11 to 24 years and 12 to 23 years as of December 31, 2017 and 2016, respectively.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Pension costs recognized in profit or loss are as follows:

	For the years ended December 31	
	2017	2016
Current service cost	\$ 8,570	\$ 7,767
Net interest on the net defined benefit liabilities	15,092	14,727
Subtotal	23,662	22,494
Overestimate on book	1,627	956
Total	<u>\$ 25,289</u>	<u>\$ 23,450</u>

Reconciliations of liabilities (assets) of the defined benefit obligation and plan assets at fair value are as follows:

	December 31, 2017	December 31, 2016
Defined benefit obligation	\$ 924,450	\$ 1,087,733
Plan assets at fair value	(268,747)	(250,449)
Subtotal	655,703	837,284
(Underestimate) overestimate on book	(711)	977
Subtotal	654,992	838,261
Net defined benefit assets	2,080	2,070
Net defined benefit liabilities	<u>\$ 657,072</u>	<u>\$ 840,331</u>

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

Reconciliations of liabilities (assets) of the defined benefit plan are as follows:

	Defined benefit obligation	Plan assets at fair value	Net defined benefit liabilities (assets)
As of January 1, 2017	\$ 1,087,733	\$ (250,449)	\$ 837,284
Current service cost	8,570	-	8,570
Interest expenses (income)	19,555	(4,463)	15,092
Subtotal	28,125	(4,463)	23,662
Remeasurements of the defined benefit liabilities/assets:			
Actuarial gains and losses arising from changes in demographic assumptions	1,208	-	1,208
Actuarial gains and losses arising from changes in financial assumptions	(158,134)	-	(158,134)
Experience adjustments	(50,771)	-	(50,771)
Remeasurements of the defined benefit assets	-	2,078	2,078
Subtotal	(207,697)	2,078	(205,619)
Payment of benefit obligation	(8,249)	15,329	7,080
Contributions by employer	-	(21,952)	(21,952)
Acquired through business combinations	24,538	(9,290)	15,248
Subtotal	924,450	(268,747)	655,703
Underestimate on book	(711)	-	(711)
As of December 31, 2017	\$ 923,739	\$ (268,747)	\$ 654,992

	Defined benefit obligation	Plan assets at fair value	Net defined benefit liabilities (assets)
As of January 1, 2016	\$ 992,500	\$ (237,129)	\$ 755,371
Current service cost	8,723	-	8,723
Interest expenses (income)	18,783	(4,056)	14,727
Past service cost and gains and losses arising from settlements	(956)	-	(956)
Subtotal	26,550	(4,056)	22,494
Remeasurements of the defined benefit liabilities/assets:			
Actuarial gains and losses arising from changes in demographic assumptions	(23,553)	-	(23,553)
Actuarial gains and losses arising from changes in financial assumptions	140,480	-	140,480
Experience adjustments	(53,360)	-	(53,360)
Remeasurements of the defined benefit assets	-	1,935	1,935
Subtotal	63,567	1,935	65,502
Contributions by employer	-	(10,620)	(10,620)
Acquired through business combinations	5,116	(579)	4,537
Subtotal	1,087,733	(250,449)	837,284
Overestimate on book	977	-	977
As of December 31, 2016	\$ 1,088,710	\$ (250,449)	\$ 838,261

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

The principal assumptions used in determining the Company's defined benefit plan are shown below:

	December 31, 2017	December 31, 2016
Discount rate	1.00%~4.00%	1.50%~2.00%
Expected rate of salary increases	2.00%~5.00%	2.00%~5.00%

Sensitivity analysis for significant assumption are shown below:

	For the years ended December 31			
	2017		2016	
	Defined benefit obligation increase	Defined benefit obligation decrease	Defined benefit obligation increase	Defined benefit obligation decrease
Discount rate increases by 0.5%	\$	\$ (75,903)	\$ -	\$ (99,211)
Discount rate decreases by 0.5%	85,116		110,784	-
Rate of future salary increases by 0.5%	83,917		108,172	-
Rate of future salary decreases by 0.5%		(76,179)	-	(98,004)

The sensitivity analysis above are based on a change in a significant assumption (for example: change in discount rate or future salary), keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

There was no change in the methods and assumptions used in preparing the sensitivity analysis compared to the previous period.

(19) Equity**A. Share capital**

MTK's authorized capital as of December 31, 2017 and 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\$15,814,140 thousand, and NT\$15,821,122 thousand, divided into 1,581,413,973 shares, and 1,582,112,191 shares as of December 31, 2017 and 2016, respectively. Each share has one voting right and a right to receive dividends.

MTK issued 23,142 new shares for the year ended December 31, 2017, at par value of NT\$10 for exercising employee stock options. The aforementioned new issued shares (NT\$231 thousand in the amount) were not yet registered and therefore were classified as capital collected in advance as of December 31, 2017.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

On June 24, 2016, the general shareholders' meeting approved to issue restricted stocks for employees. 10,828,505 shares of restricted stocks for employees were issued as of December 31, 2017. Relevant regulators' approvals have been obtained and related registration processes have been completed.

MTK has redeemed 998,218 shares of issued restricted stocks for employees during the year ended December 31, 2017, among which 952,908 shares have been cancelled. Relevant regulators' approvals have been obtained and related registration processes have been completed.

B. Capital surplus

	December 31, 2017	December 31, 2016
Additional paid-in capital	\$ 83,765,699	\$ 85,867,533
Treasury share transactions	1,529,750	1,455,706
Changes in ownership interests in subsidiaries	1,146,807	176,894
Donated assets	1,261	1,261
From share of changes in net assets of associates	4,326	29,475
Employee stock options	498,474	513,409
Restricted stocks for employees	1,129,630	1,660,064
Others	134,872	111,014
Total	<u>\$ 88,210,819</u>	<u>\$ 89,815,356</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 December 31, 2017 and 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 December 31, 2017 and 2016, MTK did not hold any other treasury shares.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO 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 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.

Details of the 2016 and 2015 earnings distribution and dividends per share as resolved by general shareholders' meeting on June 15, 2017 and June 24, 2016, respectively, 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 general shareholders' meeting on June 15, 2017 resolved to distribute the paid in capital by cash in the amount of NT\$2,372,405 thousand or NT\$1.5 per share.

E. Non-controlling interests

	For the years ended December 31	
	2017	2016
Beginning balance	\$ 1,883,968	\$ 6,659,159
(Losses) gains attributable to non-controlling interests	(262,506)	329,934
Other comprehensive (losses) income, attributable to non-controlling interests, net of tax:		
Exchange differences resulting from translating the financial statements of foreign operations	(5,945)	(71,478)
Share-based payment transactions	15,072	-
Changes in ownership interests in subsidiaries	1,028,273	220,048
Acquisition through business combinations	1,424,763	-
Acquisition of additional interest in a subsidiary	(980,110)	(6,126,135)
Others	(1,716,145)	872,440
Ending balance	<u>\$ 1,387,370</u>	<u>\$ 1,883,968</u>

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

Certain employees of the Company are entitled to share-based payment as part of their remunerations. Services are provided by the employees in return for the equity instruments granted. These plans are accounted for as equity-settled share-based payment transactions.

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 December 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	229,086	229,086	\$ 355.5
2008.08.28	1,640,285	406,851	406,851	342.1
2009.08.18	1,382,630	487,756	487,756	426.5
2010.08.27	1,605,757	621,001	621,001	402.0
2010.11.04	65,839	8,134	8,134	374.4
2011.08.24	2,109,871	1,038,401	1,038,401	275.5
2012.08.14	1,346,795	832,714	832,714	284.8
2013.08.22	1,436,343	1,057,160	1,057,160	368.0

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

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

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

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

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

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

	For the years ended December 31			
	2017		2016	
	Weighted-average		Weighted-average	
Employee Stock Option	Options (Unit)	Exercise Price per Share (NT\$)	Options (Unit)	Exercise Price per Share (NT\$)
Outstanding at beginning of year	4,923,268	\$ 339.9	5,461,752	\$ 341.8
Granted	-	-	-	-
Exercised (Note)	(23,142)	278.5	-	-
Forfeited (Expired)	(219,023)	332.9	(538,484)	341.6
Outstanding at end of year	<u>4,681,103</u>	340.4	<u>4,923,268</u>	339.9
Exercisable at end of year	<u>4,681,103</u>		<u>4,476,671</u>	
Weighted-average fair value of options granted during the year (in NT\$)	<u>\$ -</u>		<u>\$ -</u>	

Note : The weighted average share price at the date of exercise of those options was NT\$331.8 for the year ended December 31, 2017.

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

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

Date of grant	Range of Exercise Price (NT\$)	December 31, 2017		December 31, 2016	
		Outstanding stock options		Outstanding stock options	
		Weighted- average Expected	Weighted- average Exercise Price	Weighted- average Expected	Weighted- average Exercise Price
		Remaining	per Share	Remaining	per Share
		Years	(NT\$)	Years	(NT\$)
2007.12.19	\$ 342.1~355.5	-	\$ 346.9	-	\$ 347.1
2009.07.27	426.5	-	426.5	-	426.6
2010.05.10	374.4~402.0	-	401.6	0.17	401.8
2011.08.09	275.5	0.17	275.5	1.17	275.6
2012.08.09	284.8	1.13	284.8	2.13	284.9
2013.08.09	368	2.17	368.0	3.17	368.0

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 and 300,000 gratuitous restricted stocks on September 6, 2016 and July 17, 2017, respectively. The issuance process was granted effective registration by the securities authority.

The fair value of the restricted stocks issued was NT\$254.5 per share. The estimated compensation expense amounted to NT\$1,492,340 thousand in total based on the vesting conditions and will be recognized during the vesting period. As of December 31, 2017, MTK had recognized NT\$894,525 thousand as compensation expense and NT\$597,815 thousand as unearned employee compensation, which were recorded under salary expense and other equity, respectively.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

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. The aforementioned units of employee stock options have been exercised in full as of December 31, 2017. The total numbers of outstanding stock options were 859,848 units as of December 31, 2016.

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.

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

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

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

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

	<u>2017</u>		<u>2016</u>	
	Unit	Weighted average exercise price	Unit	Weighted average exercise price
	(in thousand)	per share (NT\$)	(in thousand)	per share (NT\$)
Outstanding at beginning of year	12	\$ 195	916	\$ 160
Granted	-	-	-	-
Exercised	(12)	195	(897)	195
Forfeited (Expired)	-	-	(7)	160
Outstanding at end of year	-	-	12	195
Exercisable at end of year	-	-	12	-

The abovementioned exercised price would be adjusted in accordance with the plan when Richtek issues stock dividends or distributes cash dividends.

Richtek's shares were delisted on April 29, 2016 as all of its shares were acquired by Hsu-Si Investment at a price of NT\$195 per share on that day. Based on Richtek's revised share appreciation rights plan (approved by the Board of Directors of Richtek on November 9, 2015), effective from the day Richtek's shares are delisted, Richtek will have to use the price of NT\$195 to replace the exercise day closing price (as defined in the share appreciation rights plan) to calculate the intrinsic value of the rights and make payments to employees. Please refer to Note 6. (29) for relevant information for the merger with Richtek.

Share-based payment plans of Subsidiaries

In August 2016, subsidiary Airoha was authorized by FSC to issue employee stock options with a total number of 2 million units, each unit eligible to subscribe for one common share of Airoha. On May 11, 2017, Board of Directors of Airoha resolved to revise the aforementioned share-based payment plans. Under the revised plan, Airoha would have to pay cash to settle all outstanding options in the case Airoha carries out a merger transaction and becomes a wholly owned subsidiary of an institutional shareholder. Therefore, there have been no outstanding stock options since July 27, 2017, the acquisition date. Please refer to Note 6. (29) for relevant information for the merger with Airoha.

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

Share-based compensation expenses recognized for employee services received for the years ended December 31, 2017 and 2016 are shown in the following table:

	For the years ended December 31	
	2017	2016
Employee stock options	\$ 13,329	\$ 14,929
Restricted stocks for employees	605,204	289,321
Share appreciation rights plan	-	2,512
Total	<u>\$ 618,533</u>	<u>\$ 306,762</u>

Except for the share-based payment plan of Airoha which was revised in the second quarter of 2017, the Company did not modify or cancel any share-based payment plans for the years ended December 31, 2017 and 2016.

(21) Sales

	For the years ended December 31	
	2017	2016
Sale of goods	\$ 260,583,467	\$ 307,199,463
Other operating revenues	1,969,694	1,577,448
Less: Sales returns and discounts	(24,336,843)	(33,265,197)
Net sales	<u>\$ 238,216,318</u>	<u>\$ 275,511,714</u>

(22) Summary statement of employee benefits, depreciation and amortization expenses by function for the years ended December 31, 2017 and 2016:

	For the years ended December 31					
	2017			2016		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Pension	\$ 28,889	\$ 1,607,709	\$ 1,636,598	\$ 27,553	\$ 1,561,048	\$ 1,588,601
Others	\$ 686,744	\$ 42,133,690	\$ 42,820,434	\$ 608,211	\$ 41,092,759	\$ 41,700,970
Depreciation	\$ 211,964	\$ 3,346,058	\$ 3,558,022	\$ 169,808	\$ 2,891,570	\$ 3,061,378
Amortization	\$ 720	\$ 3,651,607	\$ 3,652,327	\$ 951	\$ 3,833,749	\$ 3,834,700

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

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 year ended December 31, 2017. 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. A resolution was approved in a meeting of the Board of Directors held on March 23, 2018 to distribute NT\$298,331 thousand and NT\$43,799 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 2017.

A resolution was approved in a meeting of the Board of Directors 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.

(23) Other income

	For the years ended	
	December 31	
	2017	2016
Interest income	\$ 2,553,755	\$ 2,517,861
Dividend income	580,035	398,259
Rental income	123,528	79,751
Others	218,656	489,678
Total	\$ 3,475,974	\$ 3,485,549

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(24) Other gains and losses**

	For the years ended	
	December 31	
	2017	2016
Losses on disposal of property, plant and equipment	\$ (30,714)	\$ (15,778)
Losses on disposal of intangible assets	(450)	(909)
Gains (losses) on disposal of investments		
Non-current assets held for sale	5,123,575	-
Available-for-sale financial assets	8,821,082	(96,624)
Held-to-maturity financial assets	-	(16,497)
Financial assets measured at cost	22,901	(1,000)
Investments accounted for using the equity method	1,496,172	308,804
Foreign exchange (losses) gains	(436,976)	597,572
Impairment losses		
Available-for-sale financial assets	(63,520)	-
Financial assets measured at cost	(352,894)	(71,172)
Gains (losses) on financial assets at fair value through profit or loss	289,693	(163,538)
Losses on financial liabilities at fair value through profit or loss	-	(12,087)
Others	(59,346)	15,555
Total	\$ 14,809,523	\$ 544,326

(25) Finance costs

	For the years ended	
	December 31	
	2017	2016
Interest expenses on borrowings	\$ 939,344	\$ 558,906

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(26) Components of other comprehensive income

For the year ended December 31, 2017 :

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
Not to be reclassified to profit or loss:					
Remeasurements of the defined benefit plan	\$ 207,977	\$ -	\$ 207,977	\$ (35,356)	\$ 172,621
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	(4,439,045)	-	(4,439,045)	-	(4,439,045)
Unrealized gains (losses) from available-for-sale financial assets	19,543,561	(8,757,562)	10,785,999	(1,248,983)	9,537,016
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(7,559)	-	(7,559)	-	(7,559)
Total of other comprehensive income	\$ 15,304,934	\$ (8,757,562)	\$ 6,547,372	\$ (1,284,339)	\$ 5,263,033

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

For the year ended December 31, 2016 :

				Income tax relating to	
	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	components of other comprehensive income	Other comprehensive income, net of tax
Not to be reclassified to profit or loss:					
Remeasurements of the defined benefit plan	\$ (65,079)	\$ -	\$ (65,079)	\$ 11,064	\$ (54,015)
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	(4,504,523)	-	(4,504,523)	-	(4,504,523)
Unrealized gains (losses) from available-for-sale financial assets	11,200,973	96,624	11,297,597	(1,172,986)	10,124,611
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	125,345	-	125,345	-	125,345
Total of other comprehensive income	\$ 6,756,716	\$ 96,624	\$ 6,853,340	\$ (1,161,922)	\$ 5,691,418

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(27) Income tax**

The major components of income tax expense are as follows:

	For the years ended December 31	
	2017	2016
Current income tax	\$ 4,950,291	\$ 3,355,119
Deferred tax income	(1,816,247)	(219,062)
Others	33,321	46,296
Income tax expense recognized in profit or loss	<u>\$ 3,167,365</u>	<u>\$ 3,182,353</u>

Income tax recognized in other comprehensive income

	For the years ended December 31	
	2017	2016
Deferred tax expense:		
Remeasurements of the defined benefit plan	\$ 35,356	\$ (11,064)
Unrealized gains on available-for-sale financial assets	1,248,983	1,172,986
Income tax relating to components of other comprehensive income	<u>\$ 1,284,339</u>	<u>\$ 1,161,922</u>

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

	For the years ended December 31	
	2017	2016
Accounting profit before tax from continuing operations	<u>\$ 27,237,463</u>	<u>\$ 27,212,885</u>
Tax at the domestic rates applicable to profits in the country concerned	\$ 8,574,283	\$ 8,612,158
Tax effect of revenues exempt from taxation	(1,077,754)	(2,627,270)
Tax effect of expenses not deductible for tax purposes	87,084	10,639
Investment tax credits	(340,454)	(367,191)
Tax effect of deferred tax assets/liabilities	(5,105,032)	(3,024,560)
10% surtax on undistributed retained earnings	906,327	634,503
Others	122,911	(55,926)
Total income tax expense recognized in profit or loss	<u>\$ 3,167,365</u>	<u>\$ 3,182,353</u>

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

For the year ended December 31, 2017

	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Charged directly to equity	Exchange differences	Ending balance
Temporary differences						
Unrealized allowance for inventory obsolescence	\$ 1,082,302	\$ 581,768	\$ -	\$ -	\$ -	\$ 1,664,070
Allowance for sales returns and discounts	634,818	(84,652)	-	-	-	550,166
Amortization of difference for tax purpose	131,323	12,693	-	-	-	144,016
Amortization of goodwill difference for tax purpose	(1,606,069)	1,169,120	-	-	-	(436,949)
Unused tax losses	75,663	(39,282)	-	-	-	36,381
Unused tax credits	257,236	19,014	-	-	-	276,250
Others	(335,027)	157,586	(1,284,339)	-	-	(1,461,780)
Deferred tax income (expense)		<u>\$ 1,816,247</u>	<u>\$ (1,284,339)</u>	<u>\$ -</u>	<u>\$ -</u>	
Net deferred tax assets	<u>\$ 240,246</u>					<u>\$ 772,154</u>
Reflected in balance sheet as follows:						
Deferred tax assets	<u>\$ 3,265,695</u>					<u>\$ 3,898,877</u>
Deferred tax liabilities	<u>\$ (3,025,449)</u>					<u>\$ (3,126,723)</u>

For the year ended December 31, 2016

	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Charged directly to equity	Exchange differences	Ending balance
Temporary differences						
Unrealized allowance for inventory obsolescence	\$ 940,306	\$ 141,996	\$ -	\$ -	\$ -	\$ 1,082,302
Allowance for sales returns and discounts	609,665	25,153	-	-	-	634,818
Amortization of difference for tax purpose	34,450	96,873	-	-	-	131,323
Amortization of goodwill difference for tax purpose	(1,406,191)	(199,878)	-	-	-	(1,606,069)
Unused tax losses	89,401	(13,738)	-	-	-	75,663
Unused tax credits	200,114	57,122	-	-	-	257,236
Others	715,361	111,534	(1,161,922)	-	-	(335,027)
Deferred tax income (expense)		<u>\$ 219,062</u>	<u>\$ (1,161,922)</u>	<u>\$ -</u>	<u>\$ -</u>	
Net deferred tax assets	<u>\$ 1,183,106</u>					<u>\$ 240,246</u>
Reflected in balance sheet as follows:						
Deferred tax assets	<u>\$ 2,997,362</u>					<u>\$ 3,265,695</u>
Deferred tax liabilities	<u>\$ (1,814,256)</u>					<u>\$ (3,025,449)</u>

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Integrated income tax information

	December 31, 2017	December 31, 2016
Balance of the imputation credit account	\$ -(Note)	\$ 9,743,192

The actual creditable ratios for 2016 was 11.69%. For 2016, imputation credit ratio for individual stockholders residing in R.O.C. is half of the original ratio according to the Article 66-6 of Income Tax Act.

Note : On January 18, 2018, the Legislative Yuan passed amendments to the Income Tax Act that the imputation credit ratio will no longer be used.

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

The assessment of income tax returns

As of December 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 2015	(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.	Assessed and approved up to 2015	
Subsidiary- Richtek Technology Corp.	Assessed and approved up to 2015	

Note 1: MTK has applied for administrative appeals of the tax returns of 2015, 2014, 2012, 2011, 2010, 2009 and 2008. MTK disagreed with the decision made in the tax assessment notices. The Company has paid in full the additional taxes assessed by the tax authorities.

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.

(28) 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.

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

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.

	For the years ended December 31	
	2017	2016
A. Basic earnings per share		
Profit attributable to ordinary equity owners of the parent (in thousand NT\$)	\$ 24,332,604	\$ 23,700,598
Weighted average number of ordinary shares outstanding for basic earnings per share (share)	1,564,139,064	1,563,789,601
Basic earnings per share (NT\$)	\$ 15.56	\$ 15.16
B. Diluted earnings per share		
Profit attributable to ordinary equity owners of the parent (in thousand NT\$)	\$ 24,332,604	\$ 23,700,598
Weighted average number of ordinary shares outstanding for basic earnings per share (share)	1,564,139,064	1,563,789,601
Effect of dilution:		
Employees' compensation-stock (share)	1,309,316	1,716,700
Employee stock options (share) (Note)	23,448	-
Restricted stocks for employees (share)	7,380,348	1,330,974
Weighted average number of ordinary shares outstanding after dilution (share)	1,572,852,176	1,566,837,275
Diluted earnings per share (NT\$)	\$ 15.47	\$ 15.13

Note: There were no dilutive employee stock options for the year ended December 31, 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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(29) 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. On March 3, 2016, the extraordinary shareholders' meeting of Richtek and the Board of Directors of Hsu-Si Investment (on behalf of its shareholders' meeting) approved the share-swap agreement. Hsu-Si Investment would pay NT\$195 in cash per share for the rest of 49% shares of Richtek. Consequently, the ownership interest in Richtek changed but control over it remained. The difference between the cash payment to the non-controlling shareholders' common shares and the carrying amount of Richtek's 49% shares was recorded in equity. On April 29, 2016, the share-swap date, Richtek was delisted from the TWSE and became a wholly owned subsidiary of Hsu-Si Investment.

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO 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 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><u>\$ 12,694,209</u></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><u>\$ 8,295,999</u></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><u>\$ (13,026,524)</u></u>

The goodwill of NT\$8,295,999 thousand was mainly the value of expected synergies arising from acquisition.

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**The merger with ILI Technology Corp.

Subsidiary MStar Semiconductor, Inc. (“MStar Taiwan”) established Mrise Tech. in July 2015. Further, on October 26, 2015, the extraordinary shareholders’ meeting of ILI Tech. and the Board of Directors of Mrise Tech. (on behalf of its shareholders) resolved to acquire and merge ILI Tech. at a price of NT\$51 in cash for each common share of ILI Tech. After the merger, ILI Tech. would be dissolved and Mrise Tech. would be renamed ILI Tech. 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 by increasing scale of operations and integrating resources. In long term, the merger will bring in higher net equity 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>

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>

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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	\$ (2,406,378)

The goodwill of NT\$64,291 thousand was mainly 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 year ended December 31, 2016 would have been NT\$278,643,064 thousand and NT\$24,090,459 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 and had control over it on March 14, 2017. The original 23% interest of Airoha acquired before the merger, recognized as investments accounted for using the equity method, was remeasured at fair value and the difference was recognized as a gain. In the same year, Hsu-Si Investment paid NT\$110 in cash per share for the rest of 60% shares of Airoha. Consequently, the ownership interest in Airoha changed but control over it remained. The difference between the cash payment to the non-controlling shareholders' common shares and the carrying amount of Airoha's 60% shares was recognized under the equity.

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 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	1,532,639
Property, plant and equipment	115,200
Intangible assets – software, patent, and trademark	1,358,427
Other non-current assets	57,586
	<u>4,462,945</u>
Current liabilities	(1,050,070)
Other non-current liabilities	(16,113)
	<u>(1,066,183)</u>
Fair value of identifiable net assets	<u>\$ 3,396,762</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	1,276,173
Less: identifiable net assets at fair value	(3,396,762)
Goodwill	<u>\$ 2,039,366</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 goodwill of NT\$2,039,366 thousand was mainly the value of expected synergies arising from acquisition.

From the acquisition date to December 31, 2017, Airoha has contributed NT\$5,670,418 thousand of revenue and NT\$470,553 thousand of the net income to the Company.

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

If the combination had taken place on January 1, 2017, revenues and net income of the Company for year ended December 31, 2017 would have been NT\$239,059,191 thousand and NT\$24,071,877 thousand, respectively.

(30) 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 of approximately US\$497 million. 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 and derecognized it in March 2017.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(31) Changes in ownership interests in subsidiaries

Changes in ownership of subsidiaries

Nephos (Hefei) Co. Ltd., Richnex Microelectronics Corp., E-Vehicle Semiconductor Technology Co., Ltd. and EcoNet (Cayman) Inc. increased its capital by cash for the year ended December 31, 2017, and the Company did not subscribe new shares in proportionate to its original ownership interest. Consequently, the ownership interest in the companies changed but control over these companies remained. The difference between the fair value of purchased equity investments and the increase in the non-controlling interest of NT\$969,913 thousand 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 differences between the fair value of purchased equity investments and the increase in the non-controlling interest for the year ended December 31, 2016 was NT\$99,948 thousand, which was recorded in equity.

7. Related Party Transactions

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

Name and nature of relationship of the related parties

<u>Name of the related parties</u>	<u>Nature of relationship of the related parties</u>
Airoha Technology Corp.	Associate (Note 1)
Shenzhen Huiding Technology Co., Ltd.	Associate (Note 2)
King Yuan Electronics Co., Ltd.	Substantive related party
Andes Technology Corp.	Substantive related party
JMicron Technology Corp.	Substantive related party (Note 3)

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

Note 2 : Shenzhen Huiding Technology Co., Ltd. became a listed company in Shanghai Stock Exchange on October 17, 2016. 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, and it was no longer an associate.

Note 3 : JMicon Technology Corp. reelected its chairman on June 2, 2016 and became a non-related party since that day.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Significant transactions with the related parties

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

	For the years ended December 31	
	2017	2016
Other related parties		
King Yuan Electronics Co., Ltd.	\$ 2,768,471	\$ 3,709,590

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

	For the years ended December 31	
	2017	2016
Other related parties		
Andes Technology Corp.	\$ 28,307	\$ 26,656

(3) Purchases

	For the years ended December 31	
	2017	2016
Associates		
Airoha Technology Corp.	\$ -	\$ 10,033

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

	For the years ended December 31	
	2017	2016
Associates		
Airoha Technology Corp.	\$ 2,831	\$ 7,036
Shenzhen Huiding Technology Co., Ltd.	-	10,138
Subtotal	2,831	17,174
Other related parties		
Andes Technology Corp.	578	535
JMicron Technology Corp.	-	3,649
Subtotal	578	4,184
Total	\$ 3,409	\$ 21,358

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

NT\$1,710 thousand were received from associates-Airoha Technology Corp. and was accounted for as deposits received due to a lease of office space for the year ended December 31, 2016.

(5) Other receivables from related parties

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

(6) Trade payables to related parties

	December 31, 2017	December 31, 2016
Associates		
Airoha Technology Corp.	\$ -	\$ 1,187
Other related parties		
King Yuan Electronics Co., Ltd.	571,593	922,370
Total	\$ 571,593	\$ 923,557

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

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

(8) Key management personnel compensation

	For the years ended December 31	
	2017	2016
Short-term employee benefits (Note)	\$ 1,010,580	\$ 883,232
Share-based payment	243,444	129,048
Post-employment benefits	4,195	4,643
Termination benefits	-	1,972
Total	\$ 1,258,219	\$ 1,018,895

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

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****8. Assets Pledged as Collateral**

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

Assets pledged as collateral	Carrying amount		Purpose of pledge
	December 31, 2017	December 31, 2016	
Debt instrument investments for which no active market exists-current	\$ 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-current	360	-	Performance bond
Debt instrument investments for which no active market exists-noncurrent	-	3,152	Customs clearance deposits
Debt instrument investments for which no active market exists-noncurrent	528	537	Customs clearance deposits
Debt instrument investments for which no active market exists-noncurrent	117	118	Lease execution deposits
Debt instrument investments for which no active market exists-noncurrent	-	200,000	Project performance deposits
Debt instrument investments for which no active market exists-noncurrent	39,000	-	Court pledged
Debt instrument investments for which no active market exists-noncurrent	24,234	24,157	Customs clearance deposits
Debt instrument investments for which no active market exists-noncurrent	23,018	22,964	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	3,175	-	Customs clearance deposits
Debt instrument investments for which no active market exists-noncurrent	9,808	-	Lease execution deposits
Property, plant and equipment - buildings	331,050	427,962	Long-term borrowing
Property, plant and equipment - buildings and land	331,506	336,578	Long-term borrowing
Investment Property-buildings	79,745	-	Long-term borrowing
Total	<u>\$ 869,426</u>	<u>\$ 1,041,353</u>	

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO 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 terms of one to fifty years.

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

	December 31, 2017	December 31, 2016
Not later than one year	\$ 585,929	\$ 582,716
Later than one year but not later than five years	844,803	1,099,372
Later than five years	225,302	471,622
Total	<u>\$ 1,656,034</u>	<u>\$ 2,153,710</u>

Operating lease expenses are as follows:

	For the years ended December 31	
	2017	2016
Minimum lease payments	<u>\$ 830,791</u>	<u>\$ 892,330</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 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 court dismissed the claims with prejudice against MTK and MediaTek USA Inc. pursuant to the parties' joint motion on November 29, 2017.

- 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 court dismissed the claims with prejudice against MTK and MediaTek USA Inc. pursuant to the parties' joint stipulation on May 17, 2017.
- 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 Nos. 6,677,952, 6,950,350, 7,518,616, 8,643,659. The Commission issued an Initial Determination to terminate the investigation as to MediaTek USA Inc. on June 19, 2017. On August 28, 2017, the Commission issued an Initial Determination to terminate the investigation.

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 court dismissed the claims with prejudice against MTK and MediaTek USA Inc. pursuant to the parties' joint motion on August 10, 2017.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- 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 Nos. 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. On March 7, 2017, Broadcom Corporation (“Broadcom”) filed a complaint with the Commission against MTK and subsidiary MediaTek USA Inc. alleging infringement of United States Patent Nos. 8,284,844, 7,590,059, 7,310,104, and 7,342,967; and against subsidiary MStar Taiwan alleging infringement of United States Patent Nos. 8,284,844, 7,590,059, 8,068,171 and 7,310,104. The Commission issued an Initial Determination to terminate the investigation as to MTK, MediaTek USA Inc., and MStar Taiwan on November 29, 2017.

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 Nos. 8,284,844, 7,590,059, 7,310,104, and 7,342,967; and against subsidiary MStar Taiwan alleging infringement of United States Patent Nos. 8,284,844, 7,590,059, 8,068,171, and 7,310,104. The court dismissed the claims with prejudice against MTK, MediaTek USA Inc., and MStar Taiwan pursuant to the parties’ joint stipulations on November 8, 2017.

- G. Blue Sky Networks, LLC (“Blue Sky”) filed a complaint in the United States District Court for the Western District of Texas against MTK and subsidiary MediaTek USA Inc. on July 5, 2017, alleging infringement of United States Patent Nos. 6,088,398, 6,484,027, 6,865,372, 7,693,542, 7,885,684, 8,019,381, 8,265,691 and 8,346,169. The court dismissed the claims with prejudice against MTK and MediaTek USA Inc. on October 18, 2017.
- H. Wireless Switch IP, LLC (“Wireless Switch”) filed a complaint in the United States District Court for the Northern District of California against MTK and subsidiary MediaTek USA Inc. on July 25, 2017, alleging infringement of United States Patent Nos. 7,356,351 and 7,647,070. The court dismissed the claims against MTK and MediaTek USA Inc. on October 5, 2017.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- I. Lucio Development LLC (“Lucio Development”) filed a complaint in the United States District Court for the Western District of Texas against subsidiary MediaTek USA Inc. on December 11, 2017, alleging infringement of United States Patent No. 7,069,546. 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

On January 18, 2018, the Legislative Yuan passed amendments to the Income Tax Act. The amendments raised the corporate income tax rate for companies from 17% to 20%. After the change of the tax rate, the deferred tax assets and deferred tax liabilities will be increased by NT\$580,045 thousand and NT\$135,176 thousand, respectively.

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****12. Others****(1) Financial instruments****A. Categories of financial instruments**Financial assets

	December 31, 2017	December 31, 2016
Financial assets at fair value through profit or loss:		
Held for trading financial assets	\$ 27	\$ 1,850
Financial assets designated upon initial recognition at fair value through profit or loss	5,340,886	6,965,745
Subtotal	5,340,913	6,967,595
Available-for-sale financial assets	37,637,472	28,343,391
Financial assets measured at cost	12,635,302	6,895,187
Loans and receivables:		
Cash and cash equivalents (excluding cash on hand and petty cash)	145,332,531	140,555,221
Debt instrument investments for which no active market exists	1,163,326	1,763,420
Trade receivables	16,895,396	20,480,806
Other receivables	21,251,357	5,497,925
Subtotal	184,642,610	168,297,372
Total	\$ 240,256,297	\$ 210,503,545

Financial liabilities

	December 31, 2017	December 31, 2016
Financial liabilities at fair value through profit or loss:		
Held for trading financial liabilities	\$ 18,144	\$ 45,098
Financial liabilities at amortized cost:		
Short-term borrowings	64,315,682	54,523,984
Trade payables (including related parties)	23,584,452	24,630,117
Other payables	35,796,290	33,937,995
Long-term payables	1,726,364	-
Long-term borrowings (including current portion)	373,042	419,086
Subtotal	125,795,830	113,511,182
Total	\$ 125,813,974	\$ 113,556,280

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

B. Fair values of financial instruments

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

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

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

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

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

- c. Fair value measurement hierarchy

- (a) Fair value measurement hierarchy

All 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:

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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:

As of December 31, 2017

	Level 1	Level 2	Level 3	Total
<u>Financial assets:</u>				
Financial assets at fair value				
through profit or loss				
Bonds	\$ 458,714	\$ -	\$ 675,363	\$ 1,134,077
Derivative financial instruments	-	27	-	27
Linked deposits	-	253,124	3,953,685	4,206,809
Available-for-sale financial assets				
Stocks	2,108,954	23,704,616	32,701	25,846,271
Bonds	3,687,075	-	3,998,034	7,685,109
Funds	3,161,143	-	944,949	4,106,092
Total	<u>\$ 9,415,886</u>	<u>\$ 23,957,767</u>	<u>\$ 9,604,732</u>	<u>\$ 42,978,385</u>
<u>Financial liabilities:</u>				
Financial liabilities at fair value				
through profit or loss				
Derivative financial instruments	\$ -	\$ 18,144	\$ -	\$ 18,144

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**The detail movement of recurring fair value measurements in Level 3:

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

	Financial assets at fair value through profit or loss		Available-for-sale financial assets			
	Linked					
	Bonds	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	36,939	59,741	7,008	28,639	-	132,327
Amount recognized in OCI	-	-	67,287	-	-	67,287
Amount recognized in OCI- exchange differences	(7,605)	(236,598)	(97,203)	(9,601)	-	(351,007)
Acquisitions	-	1,073,991	3,874,204	1,949,531	-	6,897,726
Settlements	-	(751,066)	(2,159,452)	(1,813,554)	-	(4,724,072)
As of December 31, 2017	\$ 675,363	\$ 3,953,685	\$ 3,998,034	\$ 944,949	\$ 32,701	\$ 9,604,732

	Financial assets at fair value through profit or loss		Available-for-sale financial assets			
	Linked					
	Bonds	deposits	Bonds	Funds	Stocks	Total
As of January 1, 2016	\$ 1,712,272	\$ 4,923,666	\$ 1,133,112	\$ 1,249,090	\$ 32,701	\$ 9,050,841
Amount recognized in profit or loss	(28,492)	(105,431)	3,076	26,762	-	(104,085)
Amount recognized in OCI	-	-	(16,021)	-	-	(16,021)
Amount recognized in OCI- exchange differences	(38,350)	(85,241)	(22,113)	(110,598)	-	(256,302)
Acquisitions	697,002	1,704,723	1,789,158	2,416,270	-	6,607,153
Settlements	(1,696,403)	(2,630,100)	(581,022)	(1,778,616)	-	(6,686,141)
Reclassified to non- current assets held for sale	-	-	-	(1,012,974)	-	(1,012,974)
As of December 31, 2016	\$ 646,029	\$ 3,807,617	\$ 2,306,190	\$ 789,934	\$ 32,701	\$ 7,582,471

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

Total gains (losses) related to bonds, funds and linked deposits on hand recognized for the years ended December 31, 2017 and 2016 amounted to NT\$96,601 thousand and NT\$(146,631) 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 December 31, 2017:

	Valuation technique	Significant unobservable inputs	Quantitative information	Interrelationship between inputs and fair value	Sensitivity analysis of the inputs to fair value
Stock	Market Approach	Price-Book ratio of similar entities	20.36~ 22.26	The higher the Price-Book ratio of similar entities, the higher the fair value estimated	10% increase (decrease) in the Price-Book ratio of similar entities would result in an increase (decrease) in profit or loss by NT\$1,740 thousand.

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	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.

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

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

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

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

As of December 31, 2017

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets not measured at fair value but for which the fair value is disclosed:				
Investment property	\$ -	\$ -	\$ 1,399,396	\$ 1,399,396

As of December 31, 2016

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

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:

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

Forward exchange contracts	Currency	Contract amount ('000)	Maturity
As of December 31, 2017	CNY to USD	Buy USD 39,712	January 2017
As of December 31, 2017	CNY to USD	Sell USD 1,000	January 2017
As of December 31, 2016	TWD to USD	Sell USD 220,000	January 2016
As of December 31, 2016	TWD to USD	Sell USD 40,000	February 2016

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 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. The information of the sensitivity analysis is as follows:

When NTD appreciates or depreciates against USD by 0.1%, the profit for the years ended December 31, 2017 and 2016 decreases/increases by NT\$1,662 thousand and NT\$4,860 thousand, while equity decreases/increases by NT\$78,448 thousand and NT\$32,213 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.

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 years ended December 31, 2017 and 2016 to increase/decrease by NT\$6,545 thousand and NT\$11,188 thousand, respectively.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

c. Other price risk

The Company's listed and unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Company's 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 years ended December 31, 2017 and 2016 to increase/decrease by NT\$289,747 thousand and NT\$196,146 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.

As of December 31, 2017 and 2016, receivables from top ten customers represented 42.78% and 37.58% of the total trade receivables of the Company, respectively. The credit concentration risk of other accounts receivables was insignificant.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

	<u>Less than 1 year</u>	<u>1 to 5 years</u>	<u>Less than 5 years</u>	<u>Total</u>
<u>As of December 31,</u>				
<u>2017</u>				
Short-term borrowings	\$ 64,451,953	\$ -	\$ -	\$ 64,451,953
Trade payables				
(including related parties)	23,584,452	-	-	23,584,452
Other payables	35,719,573	-	-	35,719,573
Long-term borrowings	42,235	232,037	121,574	395,846
Long-term payables	-	1,726,364	-	1,726,364
Total	<u>\$ 123,798,213</u>	<u>\$ 1,958,401</u>	<u>\$ 121,574</u>	<u>\$ 125,878,188</u>

As of December 31,2016

Short-term borrowings	\$ 54,581,331	\$ -	\$ -	\$ 54,581,331
Trade payables				
(including related parties)	24,630,117	-	-	24,630,117
Other payables	33,913,282	-	-	33,913,282
Long-term borrowings	24,755	292,370	126,129	443,254
Total	<u>\$ 113,149,485</u>	<u>\$ 292,370</u>	<u>\$ 126,129</u>	<u>\$ 113,567,984</u>

Derivative financial instruments

	<u>Less than 1 year</u>	<u>1 to 5 years</u>	<u>Total</u>
<u>As of December 31, 2017</u>			
Gross settlement			
Forward exchange contracts			
Inflow	\$ 1,185,335	\$ -	\$ 1,185,335
Outflow	(1,206,415)	-	(1,206,415)
Net	<u>\$ (21,080)</u>	<u>\$ -</u>	<u>\$ (21,080)</u>
<u>As of December 31, 2016</u>			
Net settlement			
Forward exchange contracts	<u>\$ (47,710)</u>	<u>\$ -</u>	<u>\$ (47,710)</u>

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

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

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

December 31, 2017			
	Foreign Currency (thousand)	Exchange rate	NT\$ (thousand)
Financial assets			
Monetary item:			
USD	\$ 4,377,407	29.848	\$ 130,656,838
CNY	\$ 1,867,940	4.587	\$ 8,440,931
Non-monetary item:			
USD	\$ 1,401,158	29.848	\$ 41,821,776
CNY	\$ 1,593,359	4.587	\$ 7,308,947
Financial liabilities			
Monetary item:			
USD	\$ 3,094,624	29.848	\$ 92,368,322
CNY	\$ 1,440,467	4.587	\$ 6,607,609
December 31, 2016			
	Foreign Currency (thousand)	Exchange rate	NT\$ (thousand)
Financial assets			
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
Financial liabilities			
Monetary item:			
USD	\$ 3,511,854	32.279	\$ 113,359,152
CNY	\$ 112	4.647	\$ 520

Functional currencies of entities of the Company are varied. Accordingly, the Company is not able to disclose the information of exchange gains and losses of monetary financial assets and liabilities by each significant asset and liability denominated in foreign currencies. The foreign exchange (loss) gain was NT\$(436,976) thousand and NT\$597,572 thousand for the years ended December 31, 2017 and 2016, respectively.

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

(2) Geographical information**A. Sales to other than consolidated entities**

	For the years ended December 31	
	2017	2016
Taiwan	\$ 24,064,375	\$ 20,378,650
Asia	212,721,800	252,271,020
Others	1,430,143	2,862,044
Total	<u>\$ 238,216,318</u>	<u>\$ 275,511,714</u>

Sales are presented by customers' country.

B. Non-current assets

	December 31, 2017	December 31, 2016
Taiwan	\$ 86,622,095	\$ 84,847,639
Asia	26,484,190	23,725,364
Others	890,037	1,085,425
Total	<u>\$ 113,996,322</u>	<u>\$ 109,658,428</u>

(3) Major customers

There were no sales to customers representing over 10% of the Company's consolidated net sales for the years ended December 31, 2017 and 2016.