

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

**MEDIATEK INC. AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**WITH**

**REPORT OF INDEPENDENT ACCOUNTANTS**

**FOR THE THREE MONTHS ENDED**

**MARCH 31, 2018 AND 2017**

English Translation of a Report Originally Issued in Chinese

## **Review Report of Independent Accountants**

To the Board of Directors and Shareholders  
of MediaTek Inc.

### **Introduction**

We have reviewed the accompanying consolidated balance sheets of MediaTek Inc. and its subsidiaries as of March 31, 2018 and 2017, the related consolidated statements of comprehensive income, changes in equity and cash flows for the three-month periods ended March 31, 2018 and 2017, and notes to the consolidated financial statements, including the summary of significant accounting policies (together “the consolidated financial statements”). Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, “Interim Financial Reporting” as endorsed and became effective by Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on these consolidated financial statements based on our reviews.

### **Scope of Review**

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

### **Conclusion**

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of MediaTek Inc. and its subsidiaries as at March 31, 2018 and 2017, and their consolidated financial performance and cash flows for the three month periods ended March 31, 2018 and 2017, in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, “Interim Financial Reporting” as endorsed and became effective by Financial Supervisory Commission of the Republic of China.

/s/Kuo, Shao-Pin

/s/Fuh, Wen-Fun

Ernst & Young, Taiwan  
April 27, 2018

Notice to Readers

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

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

English Translation of Financial Statements Originally Issued in Chinese

**MEDIATEK INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

**As of March 31, 2018, December 31, 2017, and March 31, 2017**

(March 31, 2018 and 2017 are unaudited)

(Amounts in thousands of New Taiwan Dollars)

ASSETS	Notes	March 31, 2018	%	December 31, 2017	%	March 31, 2017	%
<b>Current assets</b>							
Cash and cash equivalents	6(1)	\$ 140,616,960	34	\$ 145,338,376	37	\$ 139,149,253	35
Financial assets at fair value through profit or loss-current	4, 5, 6(2)	3,821,417	1	724,507	-	532,790	-
Financial assets at fair value through other comprehensive income-current	4, 5, 6(3)	20,772,004	5	-	-	-	-
Available-for-sale financial assets-current	4, 5, 6(4)	-	-	23,291,828	6	11,160,068	3
Financial assets measured at amortized cost-current	4, 5, 6(5), 8	24,142	-	-	-	-	-
Debt instrument investments for which no active market exists-current	4, 5, 6(7), 8	-	-	765,445	-	1,323,333	-
Notes receivables, net	6(25)	1,607	-	2,811	-	1,606	-
Trade receivables, net	4, 5, 6(8)	25,837,165	6	16,892,585	4	18,286,073	5
Other receivables	6(9)	11,058,050	3	21,251,357	5	18,064,934	5
Current tax assets	4, 5, 6(31)	874,495	-	866,917	-	1,197,831	-
Inventories, net	4, 5, 6(10)	33,319,611	8	26,539,614	7	37,620,820	10
Prepayments	6(11)	1,724,041	-	1,390,432	-	1,640,356	-
Other current assets		2,239,741	1	1,600,624	1	2,553,064	1
Total current assets		240,289,233	58	238,664,496	60	231,530,128	59
<b>Non-current assets</b>							
Financial assets at fair value through profit or loss-noncurrent	4, 5, 6(2)	6,648,951	2	4,616,406	1	5,028,162	1
Financial assets at fair value through other comprehensive income-noncurrent	4, 5, 6(3)	26,238,390	6	-	-	-	-
Available-for-sale financial assets-noncurrent	4, 5, 6(4)	-	-	14,345,644	4	21,268,547	6
Financial assets measured at amortized cost-noncurrent	4, 5, 6(5), 8	6,433,930	2	-	-	-	-
Financial assets measured at cost-noncurrent	4, 5, 6(6)	-	-	12,635,302	3	8,456,921	2
Debt instrument investments for which no active market exists-noncurrent	4, 5, 6(7), 8	-	-	397,880	-	271,791	-
Investments accounted for using the equity method	6(12), 6(33)	14,990,039	4	5,777,104	2	5,873,394	2
Property, plant and equipment	6(13), 8	37,890,978	9	36,938,640	10	35,754,240	9
Investment property	6(14), 8	875,215	-	873,651	-	785,902	-
Intangible assets	6(15), 6(16)	75,286,346	18	76,029,080	19	78,105,919	20
Deferred tax assets	4, 5, 6(31)	4,277,479	1	3,898,877	1	3,397,093	1
Refundable deposits		273,800	-	319,734	-	310,114	-
Prepayments for investments		-	-	160,340	-	-	-
Net defined benefit assets-noncurrent	4, 6(21)	2,102	-	2,080	-	2,066	-
Long-term prepaid rent		155,892	-	154,951	-	120,451	-
Total non-current assets		173,073,122	42	156,149,689	40	159,374,600	41
<b>Total assets</b>		<u>\$ 413,362,355</u>	<u>100</u>	<u>\$ 394,814,185</u>	<u>100</u>	<u>\$ 390,904,728</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 March 31, 2018, December 31, 2017, and March 31, 2017**

(March 31, 2018 and 2017 are unaudited)

(Amounts in thousands of New Taiwan Dollars)

LIABILITIES AND EQUITY	Notes	March 31, 2018	%	December 31, 2017	%	March 31, 2017	%
<b>Current liabilities</b>							
Short-term borrowings	6(17), 8	\$ 62,700,469	15	\$ 64,315,682	16	\$ 60,828,192	16
Financial liabilities at fair value through profit or loss-current	4, 5, 6(2)	325	-	18,144	-	42,683	-
Contract liabilities-current	4, 5, 6(24)	1,255,310	-	-	-	-	-
Trade payables		27,958,315	7	23,012,859	6	30,559,141	8
Trade payables to related parties	7	622,484	-	571,593	-	737,767	-
Other payables	6(18)	26,371,884	7	35,796,290	9	31,286,562	8
Current tax liabilities	4, 5, 6(31)	2,676,800	1	1,980,597	1	3,980,989	1
Other current liabilities	4, 6(19)	11,893,402	3	1,525,368	-	2,186,475	1
Current portion of long-term liabilities	6(20), 8	36,850	-	36,850	-	18,425	-
Total current liabilities		133,515,839	33	127,257,383	32	129,640,234	34
<b>Non-current liabilities</b>							
Long-term borrowings	6(20), 8	336,192	-	336,192	-	400,661	-
Long-term payables		837,343	-	1,726,364	1	1,299,549	-
Net defined benefit liabilities-noncurrent	4, 6(21)	659,197	-	657,072	-	857,905	-
Deposits received		181,113	-	179,472	-	173,721	-
Deferred tax liabilities	4, 5, 6(31)	3,213,259	1	3,126,723	1	3,270,373	1
Non-current liabilities-others		604,443	-	331,966	-	299,284	-
Total non-current liabilities		5,831,547	1	6,357,789	2	6,301,493	1
Total liabilities		139,347,386	34	133,615,172	34	135,941,727	35
<b>Equity attributable to owners of the parent</b>							
Share capital	6(22)						
Common stock		15,814,371	4	15,814,140	4	15,821,119	4
Capital collected in advance		176	-	231	-	-	-
Capital surplus	6(22), 6(23), 6(34)	88,207,076	21	88,210,819	22	90,931,025	23
Retained earnings	6(22)						
Legal reserve		36,998,379	9	36,998,379	9	34,628,319	9
Undistributed earnings		105,703,359	26	100,629,197	26	99,026,560	25
Other equity	6(23)	25,937,441	6	18,214,847	5	11,804,424	3
Treasury shares	6(22)	(55,970)	-	(55,970)	-	(55,970)	-
Equity attributable to owners of the parent		272,604,832	66	259,811,643	66	252,155,477	64
<b>Non-controlling interests</b>	6(22), 6(34), 6(35)	1,410,137	-	1,387,370	-	2,807,524	1
Total equity		274,014,969	66	261,199,013	66	254,963,001	65
<b>Total liabilities and equity</b>		\$ 413,362,355	100	\$ 394,814,185	100	\$ 390,904,728	100

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

Chairman : Ming-Kai Tsai

President : Lih-Shyng Tsai

Chief Financial Officer : David Ku

## MEDIATEK INC. AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three months ended March 31, 2018 and 2017

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

Description	Notes	Three Months Ended March 31			
		2018	%	2017	%
<b>Net sales</b>	4, 5, 6(24)	\$ 49,653,987	100	\$ 56,082,721	100
<b>Operating costs</b>	5, 6(10), 6(26), 7	(30,569,299)	(62)	(37,293,025)	(66)
<b>Gross profit</b>		19,084,688	38	18,789,696	34
<b>Operating expenses</b>	6(25), 6(26), 7				
Selling expenses		(2,271,683)	(4)	(2,368,309)	(5)
Administrative expenses		(1,676,068)	(3)	(1,720,439)	(3)
Research and development expenses		(13,316,490)	(27)	(13,488,970)	(24)
Expected credit gains		108,994	-	-	-
Total operating expenses		(17,155,247)	(34)	(17,577,718)	(32)
<b>Operating income</b>		1,929,441	4	1,211,978	2
<b>Non-operating income and expenses</b>					
Other income	4, 6(27), 7	890,064	2	587,531	1
Other gains and losses	4, 6(28)	277,009	-	5,834,334	10
Finance costs	6(29)	(407,185)	(1)	(159,849)	-
Share of profit of associates accounted for using the equity method	6(12)	423,182	1	27,120	-
Total non-operating income and expenses		1,183,070	2	6,289,136	11
<b>Net income before income tax</b>		3,112,511	6	7,501,114	13
<b>Income tax expense</b>	4, 5, 6(31)	(452,267)	(1)	(861,957)	(1)
<b>Net income</b>		2,660,244	5	6,639,157	12
<b>Other comprehensive income</b>	4, 6(12), 6(30), 6(31)				
Items that may not be reclassified subsequently to profit or loss					
Remeasurements of defined benefit plan		(52)	-	14	-
Unrealized gains from equity instrument investments measured at fair value through other comprehensive income		966,482	2	-	-
Share of other comprehensive income of associates and joint ventures accounted for using the equity method		1,391,964	3	-	-
Income tax relating to those items not to be reclassified to profit or loss		(139,003)	-	-	-
Items that may be reclassified subsequently to profit or loss					
Exchange differences resulting from translating the financial statements of foreign operations		(1,269,868)	(3)	(4,939,104)	(9)
Unrealized gains from available-for-sale financial assets		-	-	4,782,566	9
Unrealized gains from debt instrument investments measured at fair value through other comprehensive income		23,163	-	-	-
Share of other comprehensive income of associates and joint ventures accounted for using the equity method		(5,759)	-	2,498	-
Income tax relating to those items to be reclassified to profit or loss		(16)	-	(549,416)	(1)
<b>Other comprehensive income, net of tax</b>		966,911	2	(703,442)	(1)
<b>Total comprehensive income</b>		\$ 3,627,155	7	\$ 5,935,715	11
<b>Net income (loss) for the periods attributable to :</b>					
Owners of the parent	6(32)	\$ 2,644,868		\$ 6,702,264	
Non-controlling interests	6(34)	15,376		(63,107)	
		\$ 2,660,244		\$ 6,639,157	
<b>Total comprehensive income for the periods attributable to :</b>					
Owners of the parent		\$ 3,604,388		\$ 6,043,876	
Non-controlling interests		22,767		(108,161)	
		\$ 3,627,155		\$ 5,935,715	
Basic Earnings Per Share (in New Taiwan Dollars)	6(32)	\$ 1.69		\$ 4.29	
Diluted Earnings Per Share (in New Taiwan Dollars)	6(32)	\$ 1.68		\$ 4.27	

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

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC. AND SUBSIDIARIES  
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the three months ended March 31, 2018 and 2017

(Amounts in thousands of New Taiwan Dollars)

Description	Equity attributable to owners of the parent											Non-controlling interests	Total equity
	Share capital		Capital surplus	Retained earnings		Other equity				Treasury shares	Equity attributable to owners of the parent		
	Common stock	Capital collected in advance		Legal reserve	Undistributed earnings	Exchange differences resulting from translating the financial statements of foreign operations	Unrealized gains (losses) from financial asset measured at fair value through other comprehensive income	Unrealized gains (losses) from available-for-sale financial assets	Other				
Balance as of January 1, 2017	\$ 15,821,122	\$ -	\$ 89,815,356	\$ 34,628,319	\$ 92,324,282	\$ 2,195,895	\$ -	\$ 11,525,934	\$ (1,476,028)	\$ (55,970)	\$ 244,778,910	\$ 1,883,968	\$ 246,662,878
Profit for the three months ended March 31, 2017	-	-	-	-	6,702,264	-	-	-	-	-	6,702,264	(63,107)	6,639,157
Other comprehensive income for the three months ended March 31, 2017	-	-	-	-	14	(4,891,552)	-	4,233,150	-	-	(658,388)	(45,054)	(703,442)
Total comprehensive income	-	-	-	-	6,702,278	(4,891,552)	-	4,233,150	-	-	6,043,876	(108,161)	5,935,715
Share-based payment transactions	-	-	(9,888)	-	-	-	-	-	-	-	(9,888)	-	(9,888)
The differences between the fair value of the consideration paid or received from acquiring or disposing subsidiaries and the carrying amounts of the subsidiaries	-	-	81,955	-	-	-	-	-	-	-	81,955	-	81,955
Changes in ownership interests in subsidiaries	-	-	1,067,949	-	-	-	-	-	-	-	1,067,949	790,606	1,858,555
Issuance of restricted stock for employees	(3)	-	(45)	-	-	-	-	-	217,025	-	216,977	-	216,977
Changes in other capital surplus	-	-	(24,302)	-	-	-	-	-	-	-	(24,302)	-	(24,302)
Non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	241,111	241,111
Balance as of March 31, 2017	<u>\$ 15,821,119</u>	<u>\$ -</u>	<u>\$ 90,931,025</u>	<u>\$ 34,628,319</u>	<u>\$ 99,026,560</u>	<u>\$ (2,695,657)</u>	<u>\$ -</u>	<u>\$ 15,759,084</u>	<u>\$ (1,259,003)</u>	<u>\$ (55,970)</u>	<u>\$ 252,155,477</u>	<u>\$ 2,807,524</u>	<u>\$ 254,963,001</u>
Balance as of January 1, 2018	\$ 15,814,140	\$ 231	\$ 88,210,819	\$ 36,998,379	\$ 100,629,197	\$ (2,250,288)	\$ -	\$ 21,062,950	\$ (597,815)	\$ (55,970)	\$ 259,811,643	\$ 1,387,370	\$ 261,199,013
Effects of retrospective application and restatement	-	-	-	-	2,349,086	-	27,817,390	(21,062,950)	-	-	9,103,526	-	9,103,526
Restated balance as of January 1, 2018	15,814,140	231	88,210,819	36,998,379	102,978,283	(2,250,288)	27,817,390	-	(597,815)	(55,970)	268,915,169	1,387,370	270,302,539
Profit for the three months ended March 31, 2018	-	-	-	-	2,644,868	-	-	-	-	-	2,644,868	15,376	2,660,244
Other comprehensive income for the three months ended March 31, 2018	-	-	-	-	(15,720)	(1,283,018)	2,258,258	-	-	-	959,520	7,391	966,911
Total comprehensive income	-	-	-	-	2,629,148	(1,283,018)	2,258,258	-	-	-	3,604,388	22,767	3,627,155
Share-based payment transactions	231	(55)	6,213	-	-	-	-	-	-	-	6,389	-	6,389
Changes in ownership interests in subsidiaries	-	-	(4,326)	-	(28,936)	-	-	-	-	-	(33,262)	-	(33,262)
Issuance of restricted stock for employees	-	-	(5,036)	-	103	-	-	-	117,675	-	112,742	-	112,742
Changes in other capital surplus	-	-	(594)	-	-	-	-	-	-	-	(594)	-	(594)
Proceeds from disposal of equity instruments measured at fair value through other comprehensive income	-	-	-	-	124,761	-	(124,761)	-	-	-	-	-	-
Balance as of March 31, 2018	<u>\$ 15,814,371</u>	<u>\$ 176</u>	<u>\$ 88,207,076</u>	<u>\$ 36,998,379</u>	<u>\$ 105,703,359</u>	<u>\$ (3,533,306)</u>	<u>\$ 29,950,887</u>	<u>\$ -</u>	<u>\$ (480,140)</u>	<u>\$ (55,970)</u>	<u>\$ 272,604,832</u>	<u>\$ 1,410,137</u>	<u>\$ 274,014,969</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**  
**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**For the three months ended March 31, 2018 and 2017**

(Amounts in thousands of New Taiwan Dollars)

Description	Three Months Ended March 31	
	2018	2017
<b>Cash flows from operating activities :</b>		
Profit before tax from continuing operations	\$ 3,112,511	\$ 7,501,114
Adjustments for:		
The profit or loss items which did not affect cash flows:		
Depreciation	939,304	845,570
Amortization	834,458	892,623
Expected credit gains	(108,994)	(91,085)
Gains on financial assets and liabilities at fair value through profit or loss	(511,231)	(23,765)
Interest expenses	407,185	159,849
Gains on derecognition of financial assets measured at amortized cost	(25,664)	-
Interest income	(797,003)	(512,648)
Dividend income	(23,288)	(15,994)
Share-based payment expenses	112,620	207,089
Share of profit of associates accounted for using the equity method	(423,182)	(27,120)
Losses on disposal of property, plant and equipment	1,076	2,019
Property, plant and equipment transferred to expenses	1,200	312
Gains on disposal of non-current assets held for sale	-	(5,123,575)
Losses on disposal of investments	5,013	44,861
Gains on disposal of investments accounted for using the equity method	-	(1,487,066)
Impairment of financial assets	-	333,193
Impairment of non-financial assets	22,760	-
Others	-	200,000
Changes in operating assets and liabilities:		
Financial assets mandatorily measured at fair value through profit or loss	1,488,028	1,059,201
Notes receivables	1,204	1,205
Trade receivables	(798,050)	2,375,768
Other receivables	1,703,776	243,567
Inventories	(6,714,508)	(2,253,689)
Prepayments	(333,609)	(108,378)
Other current assets	(639,117)	(1,133,329)
Contract liabilities	(174,045)	-
Trade payables	5,020,116	35,948
Trade payables to related parties	50,891	(185,790)
Other payables	(6,091,744)	(4,439,892)
Other current liabilities	742,419	135,641
Net defined benefit liabilities	2,051	2,344
Non-current liabilities-others	272,477	41,034
Cash generated from operating activities:		
Interest received	784,258	398,347
Dividend received	23,288	15,994
Interest paid	(380,993)	(163,149)
Income tax paid	(165,917)	(113,466)
Net cash used in operating activities	(1,662,710)	(1,183,267)
<b>Cash flows from investing activities :</b>		
Acquisition of financial asset at fair value through other comprehensive income	(744,554)	-
Proceeds from disposal of financial asset at fair value through other comprehensive income	8,749,542	-
Proceeds from capital return of financial asset at fair value through other comprehensive income	9,206	-
Acquisition of financial assets measured at amortized cost	(6,041,307)	-
Proceeds from redemption of financial assets measured at amortized cost	753,845	-
Acquisition of available-for-sale financial assets	-	(1,448,826)
Proceeds from disposal of available-for-sale financial assets	-	1,798,697
Acquisition of debt instrument investments for which no active market exists	-	(1,305,447)
Proceeds from disposal of debt instrument investments for which no active market exists	-	1,397,272
Acquisition of financial assets measured at cost	-	(2,201,851)
Proceeds from capital return of financial assets measured at cost	-	1,860
Acquisition of investments accounted for using the equity method	(545,566)	(894,912)
Net cash outflows from acquisition of subsidiaries	-	(1,056,531)
Acquisition of property, plant and equipment	(1,728,309)	(581,056)
Proceeds from disposal of property, plant and equipment	3,320	1,181
Decrease in refundable deposits	45,934	22,094
Acquisition of intangible assets	(1,397,276)	(1,410,602)
Decrease in long-term lease receivables	-	211,898
(Increase) decrease in long-term prepaid rent	(941)	7,633
Net cash used in investing activities	(896,106)	(5,458,590)
<b>Cash flows from financing activities :</b>		
(Decrease) increase in short-term borrowings	(1,287,081)	7,747,799
Increase (decrease) in deposits received	601	(3,791)
Proceeds from exercise of employee stock options	4,945	-
Cash dividends	122	-
Disposal of ownership interests in subsidiaries (without losing control)	-	81,955
Change in non-controlling interests	-	1,876,021
Net cash (used in) provided by financing activities	(1,281,413)	9,701,984
Effect of changes in exchange rate on cash and cash equivalents	(881,187)	(4,471,732)
Net decrease in cash and cash equivalents	(4,721,416)	(1,411,605)
Cash and cash equivalents at the beginning of the period	145,338,376	140,560,858
Cash and cash equivalents at the end of the period	\$ 140,616,960	\$ 139,149,253

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



**MEDIATEK INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

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

**1. Organization and Operation**

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

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

The consolidated financial statements were authorized for issue in accordance with a resolution of the Board of Directors on April 27, 2018.

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

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

MTK and its subsidiaries (“the Company”) applied for the first time International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended which are recognized by Financial Supervisory Commission (“FSC”) and become effective for annual periods beginning on or after January 1, 2018. The nature and the impact of each new standard and amendment that has a material effect on the Company is described below:

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

IFRS 15 replaces IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations. In accordance with the transition provision in IFRS 15, 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.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

The Company's 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:

- a. Please refer to Note 4 for the accounting policies before or after January 1, 2018.
- b. Before January 1, 2018, revenue from sale of goods was recognized when goods have been delivered to the buyer. Starting from January 1, 2018, in accordance with IFRS 15, the Company recognized revenue when (or as) the Company satisfies a performance obligation by transferring a promised good to a customer. IFRS 15 has no impact on the Company's revenue recognition from sale of goods. However, for some contracts, part of the consideration was received from customers before transferring the goods, then the Company has the obligation to transfer the goods subsequently. Starting from January 1, 2018, in accordance with IFRS 15, it should be recognized as contract liabilities. The amount reclassified from other current liabilities to contract liabilities of the Company as at the date of initial application was NT\$1,057,970 thousand. In addition, compared with the requirements of IAS 18, other current liabilities decreased by NT\$978,700 thousand and the contract liabilities increased by NT\$978,700 thousand as at March 31, 2018.
- c. Before January 1, 2018, revenue of rendering services was recognized by reference to the stage of completion. Starting from January 1, 2018, 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, which had impacts on the revenue recognition from rendering of services. The difference decreased retained earnings by NT\$211,277 thousand, increased contracts liabilities by NT\$240,087 thousand, and increased deferred tax assets by NT\$28,810 thousand as at January 1, 2018. Also, for some service contracts, part of the consideration was received from customers upon signing the contract, then the Company has the obligation to provide the services subsequently. Before January 1, 2018, the Company recognized the consideration received in advance from customers under other current liabilities. Starting from January 1, 2018, 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\$131,298 thousand. In addition, compared with the requirements of IAS 18, other current liabilities decreased by NT\$264,655 thousand and the contract liabilities increased by NT\$264,655 thousand as at March 31, 2018.

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

- d. Please refer to Note 4, Note 5 and Note 6 for additional disclosure required by IFRS 15.

**B. IFRS 9“Financial Instruments”**

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. In accordance with the transition provision in IFRS 9, the Company elected not to restate prior periods at the date of initial application (January 1, 2018). The adoption of IFRS 9 has the following impacts on the Company:

- a. The Company adopted IFRS 9 since January 1, 2018 and it adopted IAS 39 before January 1, 2018. Please refer to Note 4 for more details on accounting policies.
- b. In accordance with the transition provision in IFRS 9, the assessment of the business model and classification of financial assets into the appropriate categories are based on the facts and circumstances that existed as at January 1, 2018. The classifications and carrying amounts of those financial assets as at January 1, 2018 are as follows:

IAS 39		IFRS 9	
Measurement categories	Carrying amounts	Measurement categories	Carrying amounts
Fair value through profit or loss	\$ 5,340,913	Fair value through profit or loss (Note)	\$ 14,304,278
Fair value through other comprehensive income		Fair value through other comprehensive income	46,123,950
Available-for-sale financial assets (including \$12,635,302 measured at cost)	50,272,774		
At amortized cost		At amortized cost (including cash and cash equivalents, notes receivables, trade receivables, financial assets measured at amortized cost and other receivables)	
Loans and receivables (including cash and cash equivalents, notes receivables, trade receivables, debt instrument investments for which no active market exists and other receivables)	184,648,454		181,916,988
Investments accounted for using equity method	5,777,104	Investments accounted for using equity method	13,008,832
Total	\$ 246,039,245	Total	\$ 255,354,048

Note: Includes trade receivables classified as financial assets measured at fair value through profit or loss due to regular factoring in the amount of NT\$ 2,731,466 thousand. The amount is presented as trade receivables on balance sheet.

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

C. Further information of the classifications of financial assets and financial liabilities for the transition from IAS 39 to IFRS 9 as at January 1, 2018 are as follows:

IAS 39		IFRS 9			Retained earnings	Other components of equity
Class of financial instruments	Carrying amounts	Class of financial instruments	Carrying amounts	Difference	Adjusted amounts	Adjusted amounts
Financial assets at fair value through profit or loss						
Financial assets designated at \$	5,340,886	Measured at fair value	\$ 5,340,886	-	-	-
fair value through profit or loss		through profit or loss				
Held-for-trading	27	Measured at fair value	27	-	-	-
		through profit or loss				
Subtotal	5,340,913					
Available-for-sale financial assets (including initial investment cost of \$12,635,302 which was presented separately as investments measured at cost) (Note 1)	6,033,730	Measured at fair value	6,231,899	\$ 198,169	\$ 457,671	\$ (259,502)
		through profit or loss				
	38,180,426	Measured at fair value	40,065,332	1,884,906	2,102,692	(217,786)
		through other comprehensive income (equity instruments)				
	6,058,618	Measured at fair value	6,058,618	-	-	-
		through other comprehensive income (debt instruments)				
Subtotal	50,272,774					

(To be continued)

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

(Continued)

IAS 39		IFRS 9			Retained earnings	Other components of equity
	Carrying amounts		Carrying amounts		Adjusted amounts	Adjusted amounts
Class of financial instruments		Class of financial instruments		Difference		
Loans and receivable (Note 2)						
Cash and cash equivalents	145,338,376	Cash and cash equivalents	145,338,376	-	-	-
Debt instrument investments for which no active market exists	1,163,325	Financial assets measured at amortized costs	1,163,325	-	-	-
Notes receivables	2,811	Notes receivables	2,811	-	-	-
Trade receivables	16,892,585	Trade receivables	14,521,119	-	-	-
		Measured at fair value through profit or loss	2,371,466	-	-	-
Other receivables	21,251,357	Other receivables	21,251,357	-	-	-
Subtotal	184,648,454					
Investments accounted for using equity method	5,777,104	Investments accounted for using equity method	13,008,832	7,231,728	-	7,231,728
Total	<u>\$ 246,039,245</u>	Total	<u>\$ 255,354,048</u>	<u>\$ 9,314,803</u>	<u>\$ 2,560,363</u>	<u>\$ 6,754,440</u>

**Notes:**

- (1) In accordance with of IAS 39, available-for-sale financial assets include investments in funds, stocks and bonds of listed companies and stocks of unlisted companies. Details are described as follow:

**a. Funds**

As the cash flow characteristics for funds are not solely payments of principal and interest on the principal amount outstanding, so funds are classified as financial assets mandatorily measured at fair value through profit or loss in accordance with IFRS 9. As at January 1, 2018, the Company reclassified 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\$259,502 thousand previously recognized in other equity was reclassified to retained earnings.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

b. Stocks (including listed and unlisted companies)

The assessment is based on the facts and circumstances that existed as at January 1, 2018, as these equity investments are not held-for-trading, the Company elected to designate them as financial assets measured at fair value through other comprehensive income. As at January 1, 2018, the Company reclassified available-for-sale financial assets (including measured at cost) to financial assets measured at fair value through other comprehensive income of NT\$38,180,426 thousand. Other related adjustments are described as follows:

- (a) The equity instrument investments previously measured at cost in accordance with IAS 39 had an original carrying amount of NT\$13,620,815 thousand, of which NT\$1,286,660 thousand were impaired. However, in accordance with IFRS 9, equity instrument investments must be measured at fair value but are not required to be assessed for impairment. The fair value of the equity instrument investments were NT\$14,218,906 thousand as at January 1, 2018. The Company adjusted the carrying amount of financial assets measured at fair value through other comprehensive income by NT\$14,218,906 thousand, retained earnings and other equity by NT\$1,286,660 thousand and NT\$598,091 thousand, respectively.
- (b) The equity instrument investments measured at cost in accordance with IAS 39 had an original carrying amount of NT\$301,147 thousand. In accordance with 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 stocks of unlisted companies was NT\$499,316 thousand. The Company reclassified financial assets measured at cost of NT\$301,147 thousand to financial assets measured at fair value through profit or loss, and increased its carrying amount to NT\$499,316 thousand. The Company also increased retained earnings by NT\$198,169 thousand at the date of initial application.
- (c) The equity instrument investments of NT\$25,846,271 thousand were measured at fair value at the date of initial application that resulted in a difference of NT\$155 thousand. As at January 1, 2018, in addition to the reclassification to financial assets measured at fair value through other comprehensive income, the Company increased other equity by NT\$155 thousand to reflect the fair value changes.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

Besides, under IFRS 9, impairment assessment is not required for equity instruments. Therefore, as the Company elected to classify certain equity investments as financial assets measured at fair value through other comprehensive income, the Company reclassified an accumulated impairment loss of NT\$816,032 thousand from retained earnings to other component of equity.

c. Bonds

The cash flow characteristics for bonds investments in the amount of NT\$6,058,618 thousand are solely payments of principal and interest on the principal amount outstanding. In accordance with IFRS 9, the assessment of the business model is based on the facts and circumstances that existed as at January 1, 2018. These financial assets are managed to achieve the business model's objective by both collecting contractual cash flows and selling financial assets, they should be reclassified to financial assets measured at fair value through other comprehensive income. This reclassification did not result any difference in the carrying amount. Besides, in accordance with IFRS 9, there was no adjustment arisen from the assessment of impairment losses for the aforementioned assets as at January 1, 2018.

- (2) In accordance with IAS 39, the cash flow characteristics for held-to-maturity investments and loans and receivables are solely payments of principal and interest on the principal amount outstanding. The assessment of the business model is based on the facts and circumstances that existed as at January 1, 2018. These financial assets were measured at amortized cost as they were held within a business model whose objective was to hold financial assets in order to collect contractual cash flows. Besides, in accordance with IFRS 9, there was no adjustment arisen from the assessment of impairment losses for the aforementioned assets as at January 1, 2018. Therefore, there is no impact on the carrying amount as at January 1, 2018. As at January 1, 2018, debt instrument investments for which no active market exists of NT\$1,163,325 thousand were reclassified to financial assets measured at amortized cost.

D. Other impact

The Company adopted the requirements of IFRS 9 since January 1, 2018, and reclassified financial assets measured at cost to financial assets measured at fair value through other comprehensive income on the accounts of investment using equity method. The adjustments for investment using equity method and other equity were NT\$7,231,728 thousand.

- E. Please refer to Note 4, Note 5, Note 6 and Note 12 for the related disclosures required by IFRS 7 and IFRS 9.

- (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: None

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

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

Standards or Interpretations Numbers	The Projects of Standards or Interpretations	Effective Dates
IFRS 10 and IAS 28	"Consolidated Financial Statements" and "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures (Amendment)	To be determined by IASB
IFRS 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 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures (Amendment)

The amendments address the inconsistency between the requirements in IFRS 10 "Consolidated Financial Statements" (IFRS 10) and IAS 28 "Investments in Associates and Joint Ventures" (IAS 28), in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint venture. IFRS 10 requires full profit or loss recognition on the loss of control of a subsidiary. IAS 28 was amended so that the gain or loss resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 "Business Combinations" (IFRS 3) between an investor and its associate or joint venture is recognized in full. IFRS 10 was also amended so that the gain or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors' interests in the associate or joint venture.



**MEDIATEK INC. AND SUBSIDIARIES**

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

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

**B. 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.

**C. 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.

**D. 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.

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

**4. Summary of Significant Accounting Policies**

*Statement of Compliance*

The consolidated financial statements of the Company for the three month periods ended March 31, 2018 and 2017 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (“the Regulations”) and IAS 34 Interim Financial Reporting as endorsed and became effective by the FSC.

*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.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

*Basis of Consolidation*

Preparation principle of consolidated financial statement

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

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

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

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

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

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

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

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

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

If loses control of a subsidiary, it:

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

The consolidated entities are listed as follows:

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			March 31, 2018	December 31, 2017	March 31, 2017	
MTK	Hsu-Ta Investment Corp.	General investing	100%	100%	100%	-
MTK	MediaTek Singapore Pte. Ltd.	Research, manufacturing and sales	100%	100%	100%	-
MTK	MediaTek Investment Singapore Pte. Ltd.	General investing	100%	100%	100%	-
MTK	Airoha (Cayman) Inc.	General investing	-	-	100%	1
MTK	MStar Semiconductor Inc.	Research, manufacturing and sales	100%	100%	100%	-
MTK	Hsu-Chuang Communication Corp.	Research	100%	100%	100%	2
MTK	HFI Innovation Inc.	Intellectual property right management	100%	100%	100%	-
MTK	Airoha Technology Corp.	Research, manufacturing and sales	7%	7%	-	3
Hsu-Ta Investment Corp.	Core Tech Resources Inc.	General investing	100%	100%	100%	-
Hsu-Ta Investment Corp.	MediaTek Capital Corp.	General investing	100%	100%	100%	-
Hsu-Ta Investment Corp.	MediaTek Bangalore Private Limited	Research	0%	0%	0%	-

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			March 31, 2018	December 31, 2017	March 31, 2017	
Hsu-Ta Investment Corp.	Hsu-Si Investment Corp.	General investing	100%	100%	100%	-
Hsu-Ta Investment Corp.	Airoha Technology Corp.	Research, manufacturing and sales	-	-	5%	3
MediaTek Capital Corp.	RollTech Technology Co., Ltd.	Software development	67%	67%	67%	-
MediaTek Capital Corp.	E-Vehicle Semiconductor Technology Co., Ltd.	Research, manufacturing and sales	47%	47%	51%	-
MediaTek Capital Corp.	Chingis Technology Corp.	Research	100%	100%	100%	-
MediaTek Capital Corp.	Velocenet Inc.	Research	100%	100%	100%	-
MediaTek Capital Corp.	Nephos (Taiwan) Inc.	Research	100%	100%	100%	-
MediaTek Capital Corp.	Airoha Technology Corp.	Research, manufacturing and sales	-	-	17%	3
Core Tech Resources Inc.	MediaTek India Technology Pvt. Ltd.	Research	0%	0%	0%	-
Hsu-Si Investment Corp.	Richtek Technology Corp.	Research, manufacturing and sales	100%	100%	100%	-
Hsu-Si Investment Corp.	Airoha Technology Corp.	Research, manufacturing and sales	93%	93%	40%	3
Hsu-Si Investment Corp.	Airoha (Cayman) Inc.	General investing	100%	100%	-	1
Richtek Technology Corp.	Richstar Group Co., Ltd.	General investing	100%	100%	100%	-
Richtek Technology Corp.	Ironman Overseas Co., Ltd.	General investing	100%	100%	100%	-
Richtek Technology Corp.	Richtek Europe Holding B.V.	General investing	100%	100%	100%	-
Richtek Technology Corp.	Richtek Holding International Limited	General investing	100%	100%	100%	-

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			March 31, 2018	December 31, 2017	March 31, 2017	
Richtek Technology Corp.	Richpower Microelectronics Corp.	Manufacturing and sales	100%	100%	100%	-
Richtek Technology Corp.	Li-Yu Investment Corp.	General investing	100%	100%	100%	-
Richtek Technology Corp.	Richnex Microelectronics Corp.	Research, manufacturing and sales	79%	79%	79%	-
Richtek Technology Corp.	Richtek Global Marketing Co., Ltd.	General investing	100%	100%	100%	-
Richstar Group Co., Ltd.	Richtek USA Inc.	Sales and marketing service	100%	100%	100%	-
Ironman Overseas Co., Ltd.	Cosmic-Ray Technology Limited	General investing	100%	100%	100%	-
Richtek Europe Holding B.V.	Richtek Europe B.V.	Marketing service	100%	100%	100%	-
Cosmic-Ray Technology Limited	Li-We Technology Corp.	Marketing service	100%	100%	100%	-
Richpower Microelectronics Corp.	Richpower Microelectronics Corporation	Management service	100%	100%	100%	-
Richpower Microelectronics Corp.	Richpower Microelectronics Co., Ltd.	Marketing service	100%	100%	100%	-
Li-Yu Investment Corp.	Corporate Event Limited	Marketing service	51%	51%	51%	-
Richtek Global Marketing Co., Ltd	Richtek Korea LLC.	Sales and marketing service	100%	100%	100%	-
Airoha (Cayman) Inc.	Airotek (Shenzhen) Inc.	Research	100%	100%	-	4
Airoha (Cayman) Inc.	Airotek (Chengdu) Inc.	Research	100%	100%	-	4
Airoha Technology Corp.	Airoha Technology (Samoa) Corp.	General investing	100%	100%	100%	3
Gaintech Co. Limited	MediaTek China Limited	General investing	100%	100%	100%	-

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			March 31, 2018	December 31, 2017	March 31, 2017	
Gaintech Co. Limited	MTK Wireless Limited (UK)	Research	100%	100%	100%	-
Gaintech Co. Limited	MediaTek Japan Inc.	Research	100%	100%	100%	-
Gaintech Co. Limited	MediaTek India Technology Pvt. Ltd.	Research	100%	100%	100%	-
Gaintech Co. Limited	MediaTek Korea Inc.	Research	100%	100%	100%	-
Gaintech Co. Limited	Hesine Technologies International Worldwide Inc.	General investing	-	-	52%	5
Gaintech Co. Limited	Gold Rich International (Samoa) Limited	General investing	100%	100%	100%	-
Gaintech Co. Limited	Smarthead Limited	General investing	100%	100%	100%	-
Gaintech Co. Limited	Ralink Technology (Samoa) Corp.	General investing	100%	100%	100%	-
Gaintech Co. Limited	EcoNet (Cayman) Inc.	General investing	77%	77%	83%	-
Gaintech Co. Limited	MediaTek Wireless FZ-LLC	Technology services	100%	100%	100%	-
Gaintech Co. Limited	Digital Lord Limited	General investing	100%	100%	100%	-
Gaintech Co. Limited	Hsu Chia (Samoa) Investment Ltd.	General investing	100%	100%	100%	-
Gaintech Co. Limited	Hsu Fa (Samoa) Investment Ltd.	General investing	100%	100%	100%	-
Gaintech Co. Limited	Hsu Kang (Samoa) Investment Ltd.	General investing	100%	100%	100%	-
Gaintech Co. Limited	Nephos Pte. Ltd.	Research	100%	100%	100%	-
Gaintech Co. Limited	Nephos Inc.	Research	100%	100%	100%	-
Gaintech Co. Limited	Nephos Cayman Co. Limited	General investing	100%	100%	100%	-
Gaintech Co. Limited	Dynamic Presence Limited	General investing	100%	100%	100%	-
Gaintech Co. Limited	White Dwarf Limited	General investing	100%	100%	100%	-
Gaintech Co. Limited	Zelus Technology (HangZhou) Ltd.	Software development and sales	100%	100%	-	6
MediaTek China Limited	MediaTek (Hefei) Inc.	Research	100%	100%	100%	-
MediaTek China Limited	MediaTek (Beijing) Inc.	Research	100%	100%	100%	-

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			March 31, 2018	December 31, 2017	March 31, 2017	
MediaTek China Limited	MediaTek (Shenzhen) Inc.	Research and technology services	100%	100%	100%	-
MediaTek China Limited	MediaTek (Chengdu) Inc.	Research	100%	100%	100%	-
MediaTek China Limited	MediaTek (Wuhan) Inc.	Research	100%	100%	100%	-
MediaTek China Limited	Xuxin Investment (Shanghai) Inc.	General investing	100%	100%	100%	-
MediaTek China Limited	MediaTek (Shanghai) Inc.	Research	100%	100%	100%	-
MTK Wireless Limited (UK)	MediaTek Sweden AB	Research	100%	100%	100%	-
MTK Wireless Limited (UK)	MediaTek USA Inc.	Research	100%	100%	100%	-
MTK Wireless Limited (UK)	MediaTek Denmark Aps	Research	-	-	100%	7
MTK Wireless Limited (UK)	MediaTek Wireless Finland Oy	Research	100%	100%	100%	-
Hesine Technologies International Worldwide Inc.	Hesine Technologies, Inc.	Technology services	-	-	100%	8
Gold Rich International (Samoa) Limited	Gold Rich International (HK) Limited	General investing	100%	100%	100%	-
Digital Lord Limited	Lepower (HK) Limited	General investing	100%	100%	100%	-
Lepower (HK) Limited	Lepower Technologies (Beijing), Inc.	Research, manufacturing and sales	100%	100%	100%	-
E-Vehicle Semiconductor Technology Co., Ltd.	E-Vehicle Holdings Corp.	General investing	100%	100%	100%	-
E-Vehicle Holdings Corp.	E-Vehicle Investment Limited	General investing	100%	100%	100%	-
E-Vehicle Investment Limited	E-Vehicle Semiconductor (Shanghai) Co., Ltd.	Research, manufacturing and sales	100%	100%	100%	-

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			March 31, 2018	December 31, 2017	March 31, 2017	
EcoNet (Cayman) Inc.	Shadow Investment Limited	General investing	100%	100%	100%	-
EcoNet (Cayman) Inc.	EcoNet (HK) Limited	Research and sales	100%	100%	100%	-
EcoNet (Cayman) Inc.	EcoNet Limited	General investing	-	-	100%	9
EcoNet (HK) Limited	EcoNet (Suzhou) Limited	Research, manufacturing and sales	100%	100%	100%	-
EcoNet (Suzhou) Limited	EcoNet Limited	General investing	100%	100%	-	9
Shadow Investment Limited	MediaTek (Suzhou) Inc.	Research	-	-	100%	10
Shadow Investment Limited	MediaTek (Nanjing) Inc.	Research	-	100%	100%	11
Ralink Technology (Samoa) Corp.	AutoChips Inc.	Research, manufacturing and sales	-	-	-	12
MediaTek Investment Singapore Pte. Ltd.	MStar Semiconductor B.V.	General investing	-	-	100%	13
MediaTek Investment Singapore Pte. Ltd.	Lightup International Corp.	General investing	-	-	100%	14
MediaTek Investment Singapore Pte. Ltd.	MediaTek Bangalore Private Limited	Research	100%	100%	100%	-
MediaTek Investment Singapore Pte. Ltd.	Gaintech Co. Limited	General investing	100%	100%	100%	-
MediaTek Investment Singapore Pte. Ltd.	Cloud Ranger Limited	General investing	100%	100%	100%	-
MStar Semiconductor, Inc.	MStar France SAS	Software development	100%	100%	100%	-
MStar Semiconductor, Inc.	Shunfonger Investment Holding Limited	General investing	100%	100%	100%	-
MStar Semiconductor, Inc.	IStar Technology Ltd.	General investing and sales	100%	100%	100%	-
MStar Semiconductor, Inc.	MStar Co., Ltd.	General investing	100%	100%	100%	-

(To be continued)



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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			March 31, 2018	December 31, 2017	March 31, 2017	
MStar Semiconductor, Inc.	Digimoc Holdings Limited	General investing	100%	100%	100%	-
MStar Semiconductor, Inc.	MStar Semiconductor UK Ltd.	Software and customer development	100%	100%	100%	-
MStar Semiconductor, Inc.	ILI Technology Corporation	Research, manufacturing and sales	100%	100%	100%	-
MStar Semiconductor, Inc.	AIT Holding Ltd.	General investing	-	-	100%	15
MStar Semiconductor, Inc.	MStar Technology Pte. Ltd.	Customer development	100%	100%	100%	-
MStar Semiconductor, Inc.	MShining International Corporation	Selling of electronic parts	100%	100%	100%	-
MStar Semiconductor, Inc.	Sigmastar Technology Corp.	Research, manufacturing and sales	100%	100%	-	16
MStar Semiconductor, Inc.	Sigmastar Technology Inc.	General investing	100%	100%	-	17
Sigmastar Technology Inc.	Xiamen Sigmastar Technology Inc.	Customer development	100%	100%	-	18
Xiamen Sigmastar Technology Inc.	Shenzhen Sing Chen Technology Inc.	Customer development	100%	-	-	19
AIT Holding Ltd.	AIT Management Ltd.	General investing	-	-	100%	15
MStar Co. Ltd.	MStar Software R&D (Shenzhen), Ltd.	Software and customer development	100%	100%	100%	-
Digimoc Holdings Limited	Bubbly Bay Holdings Limited	General investing	100%	100%	100%	-
MStar Software R&D (Shenzhen), Ltd.	MStar Chen Xi Software Shanghai Ltd.	Software and customer development	100%	100%	100%	-
MStar Semiconductor UK Ltd.	MSilicon Technology Corp.	Research and technology services	100%	100%	100%	-
MStar Technology Pte. Ltd.	MStar Semiconductor India Private Limited	Research and technology services	100%	100%	100%	-
IStar Technology Ltd.	Beijing Ilitek Technology Co. Ltd.	Research and technology services	100%	100%	100%	-

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			March 31, 2018	December 31, 2017	March 31, 2017	
ILI Technology Corporation	ILITEK Holding Inc.	General investing	100%	100%	100%	-
ILITEK Holding Inc.	ILI Technology(SZ) LTD.	Technology services	100%	100%	100%	-
MediaTek (Shenzhen) Inc.	Shanghai ShanShengChuangXin Investment Partnership (Limited Partnership)	General investing	-	-	2%	20
MediaTek (Shanghai) Inc.	Shanghai ShanShengChuangXin Investment Partnership (Limited Partnership)	General investing	-	-	2%	20
Nephos Cayman Co. Limited	Nephos (Hefei) Co. Ltd.	Research, manufacturing and sales	63%	63%	63%	-

1. 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.
2. Hsu-Chuang Investment Corp. was renamed Hsu-Chuang Communication Corp. in February 2018.
3. 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.
4. Airoha (Cayman) Inc. established Airotek (Shenzhen) Inc. and Airotek (Chengdu) Inc. in September 2017.
5. For the purpose of reorganization, Hesine Technologies International Worldwide Inc. has been liquidated in November 2017.
6. Gaintech Co. Limited established Zelus Technology (HangZhou) Ltd. in October 2017.
7. For the purpose of reorganization, MediaTek Denmark Aps has been liquidated and returned its capital in May 2017.
8. For the purpose of reorganization, Hesine Technologies, Inc. has been liquidated in June 2017.
9. 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 UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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

10. For the purpose of reorganization, MediaTek (Suzhou) Inc. has been liquidated and returned its capital in August 2017.
11. For the purpose of reorganization, MediaTek (Nanjing) Inc. has been liquidated and returned its capital in February 2018.
12. Ralink Technology (Samoa) Corp. transferred the shareholding rights of AutoChips Inc. and derecognized it in March 2017.
13. For the purpose of reorganization, MStar Semiconductor B.V. has been liquidated and returned its capital in June 2017.
14. 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.
15. For the purpose of reorganization, AIT Holding Ltd. and AIT Management Ltd. have been liquidated and returned their capital in July 2017.
16. MStar Semiconductor, Inc. established Sigmastar Technology Corp. in September 2017.
17. MStar Semiconductor, Inc. established Sigmastar Technology Inc. in October 2017.
18. Sigmastar Technology Inc. established Xiamen Sigmastar Technology Inc. in December 2017.
19. Xiamen Sigmastar Technology Inc. established Shenzhen Sing Chen Technology Inc. in January 2018.
20. Shanghai ShanShengChuangXin Investment Partnership (Limited Partnership) has been removed from the consolidated entities as the Company lost control over it in third quarter 2017.

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

Except for the accounting policies listed under Note 4 (5) to Note 4 (11), the same accounting policies have been followed in the consolidated financial statements for the three months ended March 31, 2018 as were applied in the preparation of the Company's consolidated financial statements for the year ended December 31, 2017. For the summary of other significant accounting policies, please refer to the consolidated financial statements for the year ended December 31, 2017.

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 IFRS 9 Financial Instruments (before January 1, 2018: 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.

**MEDIATEK INC. AND SUBSIDIARIES**

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

A. Financial instruments: Recognition and Measurement

The accounting policy from January 1, 2018 is as follows:

The Company accounts for regular way purchase or sales of financial assets on the trade date.

The Company classified financial assets as subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both:

- a. the Company's business model for managing the financial assets and
- b. the contractual cash flow characteristics of the financial asset.

a. Financial assets measured at amortized cost

A financial asset is measured at amortized cost if both of the following conditions are met and presented as note receivables, trade receivables financial assets measured at amortized cost and other receivables etc., on balance sheet as at the reporting date:

- (a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Such financial assets are subsequently measured at amortized cost and is not part of a hedging relationship. A gain or loss is recognized in profit or loss when the financial asset is derecognized, through the amortization process or in order to recognize the impairment gains or losses.

Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

- (a) purchased or originated credit-impaired financial assets. For those financial assets, the Company applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

- (b) financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Company applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

**b. Financial asset measured at fair value through other comprehensive income**

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

- (a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Recognition of gain or loss on a financial asset measured at fair value through other comprehensive income are described as below:

- (a) A gain or loss on a financial asset measured at fair value through other comprehensive income recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognized or reclassified.
- (b) When the financial asset is derecognized the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.
- (c) Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:
  - (i) purchased or originated credit-impaired financial assets. For those financial assets, the Company applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.
  - (ii) financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Company applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

Besides, at initial recognition, the Company make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument within the scope of IFRS 9 that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies. Amounts presented in other comprehensive income are not be subsequently transferred to profit or loss (when disposal of such equity instrument, its cumulated amount included in other components of equity is transferred directly to the retained earnings) and should be recorded as financial assets measured at fair value through other comprehensive income on balance sheet. Dividends on such investment are recognized in profit or loss unless the dividends clearly represents a recovery of part of the cost of investment.

c. Financial asset measured at fair value through profit or loss

Financial assets were measured at amortized cost or measured at fair value through other comprehensive income only if they met particular conditions. All other financial assets were measured at fair value through profit or loss and presented on the balance sheet as financial assets measured at fair value through profit or loss.

Such financial assets are measured at fair value, the gains or losses resulting from remeasurement is recognized in profit or loss which includes any dividend or interest received on such financial assets.

The accounting policy before January 1, 2018 is as follows:

The Company accounts for regular way purchase or sales of financial assets on the trade date.

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 as 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 UNAUDITED 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 (combined) 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.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

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.

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 investments 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.

B. Impairment of financial assets

The accounting policy from January 1, 2018 is as follows:

The Company recognizes a loss allowance for expected credit losses on debt instrument investments measured at fair value through other comprehensive income and financial asset measured at amortized cost. The loss allowance on debt instrument investments measured at fair value through other comprehensive income is recognized in other comprehensive income and does not reduce the carrying amount in the statement of financial position.



**MEDIATEK INC. AND SUBSIDIARIES**

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

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

The Company measures expected credit losses of a financial instrument in a way that reflects:

- a. an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- b. the time value of money; and
- c. reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The loss allowance is measured as follows:

- a. at an amount equal to 12-month expected credit losses: the credit risk on a financial asset has not increased significantly since initial recognition or the financial asset is determined to have low credit risk at the reporting date. In addition, the Company measures the loss allowance for a financial asset at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that condition is no longer met.
- b. at an amount equal to the lifetime expected credit losses: the credit risk on a financial asset has increased significantly since initial recognition or financial asset that is purchased or originated credit-impaired financial asset.
- c. for trade receivables or contract assets arising from transactions within the scope of IFRS 15, the Company measures the loss allowance at an amount equal to lifetime expected credit losses.

At each reporting date, the Company needs to assess whether the credit risk on a financial asset has been increased significantly since initial recognition by comparing the risk of a default occurring at the reporting date and the risk of default occurring at initial recognition. Please refer to Note 12 for further details on credit risk.

The accounting policy before January 1, 2018 is as follows:

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.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

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

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 investments 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 UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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

**C. 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.

**D. 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 IFRS 9 *Financial Instruments* (before January 1, 2018: 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 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 UNAUDITED 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 the near 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 (combined) 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 company is provided internally on that basis to the key management personnel.

Before January 1, 2018, 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 UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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

**E. 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 instrument*

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

Derivative 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.

Before January 1, 2018, 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.

*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.

Starting from January 1, 2018, rendering of services is accounted in accordance with IFRS 15 but not within the scoping of inventories.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Sales returns and allowances

Starting from January 1, 2018, the Company estimates sales returns and allowances based on past experience and other known factors in accordance with IFRS 15, which are recognized as deduction of operating revenue and provisions. Before January 1, 2018, the Company estimated sales returns and allowances based on past experience and other known factors at the time of sale, which reduced the operating revenue and trades receivables.

Revenue recognition

The accounting policy from January 1, 2018 is as follows:

The Company's revenue arising from contracts with customers mainly includes sale of goods and rendering of services. The accounting policies for the Company's types of revenue are explained as follows:

Sale of goods

The Company manufactures and sells merchandise. Sales are recognized when goods have been shipped and customers have obtained the control (the customer has the ability to direct the use of the goods and obtain substantially all of the remaining benefits from the goods). The main product of the Company is multimedia integrated circuit chip and revenue is recognized based on the consideration stated in the contract. However, sales transactions are usually accompanied by volume discounts (based on the accumulated total sales amount for a specified period). Therefore, revenue from these sales is recognized based on the price specified in the contract, net of the estimated volume discounts. Based on previous experience, the Company uses the expected value method to estimate volume discounts. However, revenue is only recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Refund liability is also recognized during the period specified in the contract.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

The credit period of the Company's sale of goods is from 30 to 150 days. For most of the contracts, when the Company transfers the goods to customers and has a right to an amount of consideration that is unconditional, these contracts are recognized as trade receivables. The period between the Company transfers the goods to customers and when the customers pay for that goods is usually short and there is no significant financing component to the contract. For a small part of the contracts, the Company has the right to transfer the goods to customers but does not has a right to an amount of consideration that is unconditional, these contacts should be presented as contract assets. Besides, in accordance with IFRS 9, the Company measures the loss allowance for a contract asset at an amount equal to the lifetime expected credit losses.

Rendering of services

The Company provides non-recurring engineering services. Revenues are recognized based on the stage of completion of the contracts. Besides, if there are sales transactions included in the services contracts, they are usually accompanied by volume discounts (based on the accumulated total sales amount for a specified period). Therefore, revenue from these sales is recognized based on the price specified in the contracts, net of the estimated volume discounts. Based on previous experience, the Company uses the expected value method to estimate volume discounts. However, revenue is only recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Contract liabilities is also recognized during the period specified in the contract.

The contractual considerations of the Company are received in accordance with the payment schedule set by the contracts. When the Company has performed the services to customers but does not has a right to an amount of consideration that is unconditional, these contacts should be presented as contract assets. Besides, in accordance with IFRS 9, the Company measures the loss allowance for a contract asset at an amount equal to the lifetime expected credit losses. However, 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 and it should be recognized as contract liabilities.

The period between the transfers of contract liabilities to revenue is usually within one year, thus, no significant financing component is arisen.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

Silicon intellectual property license

Licensing is to provide customers the right to use intellectual properties as it exists at the point in time in which the licences is granted. The amount allocated to performance obligation-licenses of intellectual property is recognized as revenue at a point in time in which the licences is granted.

The accounting policy before January 1, 2018 is as follows:

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.



**MEDIATEK INC. AND SUBSIDIARIES**

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

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

*Post-employment benefits*

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted and disclosed for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events.

*Income taxes*

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

Except for the accounting policies listed below, the same accounting policies have been followed in the consolidated financial statements for the three months ended March 31, 2017 as were applied in the preparation of the Company’s consolidated financial statements for the year ended December 31, 2017. For the summary of other significant accounting policies, please refer to the consolidated financial statements for the year ended December 31, 2017.

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

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

The preparation of the Company’s consolidated financial statements requires 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:

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

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.

**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.

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

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**Starting from January 1, 2018:

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. In assessing the aforementioned sales returns and allowance, on the basis of highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Please refer to Note 6 for more details.

Before January 1, 2018:

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. The management periodically reviews the adequacy of the estimation used.

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

	March 31, 2018	December 31, 2017	March 31, 2017
Cash on hand and petty cash	\$ 5,676	\$ 5,845	\$ 5,109
Checking and savings accounts	12,098,744	17,814,718	17,916,814
Time deposits	128,512,540	127,397,008	120,963,956
Cash equivalents - repurchase agreements	-	120,805	263,374
Total	<u>\$ 140,616,960</u>	<u>\$ 145,338,376</u>	<u>\$ 139,149,253</u>

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

Cash and cash equivalents were not pledged.

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

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

	March 31, 2018	December 31, 2017(Note)	March 31, 2017(Note)
<u>Current</u>			
<u>Financial assets mandatorily</u>			
<u>measured at fair value through</u>			
<u>profit or loss</u>			
Funds	\$ 2,007,024		
Credit-linked deposits	1,056,241		
Bonds	757,337		
Forward exchange contracts	815		
Total	<u>\$ 3,821,417</u>		
<u>Held for trading financial liabilities</u>			
Forward exchange contracts	<u>\$ 325</u>		
<u>Noncurrent</u>			
<u>Financial assets mandatorily</u>			
<u>measured at fair value through</u>			
<u>profit or loss</u>			
Funds	\$ 2,534,895		
Credit-linked deposits	2,312,249		
Bonds	1,191,124		
Interest rate-linked deposits	488,273		
Stocks	122,410		
Total	<u>\$ 6,648,951</u>		

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

	March 31, 2018(Note)	December 31, 2017	March 31, 2017
<u>Current</u>			
<u>Held for trading financial assets</u>			
Forward exchange contracts		\$ 27	\$ -
<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	-
Bonds		225,343	-
Index-linked deposits		-	532,790
Subtotal		724,480	532,790
Total		\$ 724,507	\$ 532,790
<u>Held for trading financial liabilities</u>			
Forward exchange contracts		\$ 18,144	\$ 42,683
<u>Noncurrent</u>			
<u>Financial assets designated upon initial recognition at fair value through profit or loss</u>			
Credit-linked deposits		\$ 3,202,920	\$ 3,157,998
Bonds		908,734	1,078,533
Interest rate-linked deposits		504,752	524,275
Index-linked deposits		-	267,356
Total		\$ 4,616,406	\$ 5,028,162

Note: The Company adopted IFRS 9 since January 1, 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

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

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

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

	March 31, 2018	December 31, 2017(Note)	March 31, 2017(Note)
<u>Current</u>			
<u>Debt instrument investments</u>			
<u>measured at fair value through</u>			
<u>other comprehensive income</u>			
Bonds	\$ 4,712,293		
<u>Equity instrument investments</u>			
<u>measured at fair value through</u>			
<u>other comprehensive income</u>			
Listed companies stocks	15,921,207		
Unlisted companies stocks	138,504		
Subtotal	16,059,711		
Total	\$ 20,772,004		
<u>Noncurrent</u>			
<u>Debt instrument investments</u>			
<u>measured at fair value through</u>			
<u>other comprehensive income</u>			
Bonds	\$ 1,482,523		
<u>Equity instrument investments</u>			
<u>measured at fair value through</u>			
<u>other comprehensive income</u>			
Listed companies stocks	10,366,155		
Capital	9,615,924		
Unlisted companies stocks	4,773,788		
Subtotal	24,755,867		
Total	\$ 26,238,390		

Note: The Company adopted IFRS 9 since January 1, 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

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

The Company classified certain of its financial assets as financial assets at fair value through other comprehensive income.

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

Please refer to Note 6. (25) for more details on accumulated impairment of debt instrument investments measured at fair value through other comprehensive income and Note 12 for more details on credit risk.

The Company has equity instrument investments measured at fair value through other comprehensive income and recognized dividends in the amount of NT\$23,288 thousand for the three-months ended March 31, 2018, all of which related to investments held at the end of the reporting period.

In consideration of the Company's investment strategy, the Company disposed of the stocks which were included in equity instrument investments measured at fair value through other comprehensive income during the period. Upon derecognition, the fair value of the investments was NT\$226,657 thousand. The Company transferred the cumulative disposal gain of NT\$124,761 thousand from other components of equity to retained earnings.

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

	March 31, 2018(Note)	December 31, 2017	March 31, 2017
<u>Current</u>			
Stocks		\$ 15,899,578	\$ 6,734,029
Bonds		5,695,430	2,535,495
Funds		1,696,820	1,879,726
Depository receipts		-	10,818
Subtotal		23,291,828	11,160,068
<u>Noncurrent</u>			
Stocks		9,946,693	13,593,744
Funds		2,409,272	2,688,494
Bonds		1,989,679	4,986,309
Subtotal		14,345,644	21,268,547
Total		\$ 37,637,472	\$ 32,428,615

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

Note: The Company adopted IFRS 9 since January 1, 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

The Company adopted IAS 39 before January 1, 2018 and classified certain financial assets as available-for-sale financial assets.

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

Available-for-sale financial assets were not pledged.

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

	March 31, 2018	December 31, 2017(Note)	March 31, 2017(Note)
<u>Current</u>			
Time deposits	\$ 24,142		
Less: loss allowance	-		
Subtotal	24,142		
<u>Noncurrent</u>			
Time deposits	\$ 6,143,930		
Bonds	290,000		
Less: loss allowance	-		
Subtotal	6,433,930		
Total	<u>\$ 6,458,072</u>		

Note: The Company adopted IFRS 9 since January 1, 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

The Company classified certain financial assets as financial assets measured at amortized cost. Please refer to Note 6. (25) for more details on accumulated impairment and Note 12 for more details on credit risk.

Please refer to Note 8 for more details on financial assets measured at amortized cost under pledge.



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

## (6) Financial assets measured at cost

	March 31, 2018(Note)	December 31, 2017	March 31, 2017
<u>Available-for-sale financial assets-</u>			
<u>noncurrent</u>			
Capital		\$ 7,651,545	\$ 6,424,484
Unlisted companies stocks		4,983,757	2,032,437
Total		<u>\$ 12,635,302</u>	<u>\$ 8,456,921</u>

Note: The Company adopted IFRS 9 since January 1, 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

The Company adopted IAS 39 before January 1, 2018. The above investments in the equity instruments are measured at cost as the fair value of these investments are not reliably measurable due to the fact that the variability in the range of reasonable fair value measurements is significant for that investment and that the probabilities of the various estimates within the range cannot be reasonably assessed and used when measuring fair value.

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

Financial assets measured at cost were not pledged.

## (7) Debt instrument investments for which no active market exists

	March 31, 2018(Note)	December 31, 2017	March 31, 2017
<u>Current</u>			
Bonds		\$ 746,200	\$ 1,304,448
Time deposits		19,245	18,885
Subtotal		<u>765,445</u>	<u>1,323,333</u>
<u>Noncurrent</u>			
Bonds		290,000	-
Time deposits		107,880	271,791
Subtotal		<u>397,880</u>	<u>271,791</u>
Total		<u>\$ 1,163,325</u>	<u>\$ 1,595,124</u>

Note: The Company adopted IFRS 9 since January 1, 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

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

The Company adopted IAS 39 before January 1, 2018 and classified certain financial assets as debt instrument investments for which no active market exists.

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

**(8) Trade receivables**

	March 31, 2018	December 31, 2017	March 31, 2017
Trade receivables	\$ 26,050,248	\$ 25,424,012	\$ 25,358,727
Less: allowance for doubtful debts	(213,083)	(331,984)	(199,741)
Less: allowance for sales returns and discounts	-	(8,199,443)	(6,872,913)
Total	<u>\$ 25,837,165</u>	<u>\$ 16,892,585</u>	<u>\$ 18,286,073</u>

Trade receivables were not pledged. Besides, the abovementioned allowance for sales returns and discounts have been reclassified to other current liabilities since January 1, 2018. Please refer to Note 6. (19) for more details.

Trade receivables are generally on 30-150 day terms. The Company adopted IFRS 9 for impairment assessment since January 1, 2018. Please refer to Note 6. (25) for more details on impairment of trade receivables. The Company adopted IAS 39 for impairment assessment before January 1, 2018. The movements in the provision for impairment of trade receivables are as follows (please refer to Note 12 for credit risk disclosure):

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

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
March 31, 2017	\$ 17,631,547	\$ 652,872	\$ 1,654	\$ 18,286,073

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

In accordance with IFRS 9 adopted since January 1, 2018, the Company need to assess the business model and classify financial assets into the appropriate categories. As of March 31, 2018, trade receivables classified as financial assets measured at fair value through profit or loss due to regular factoring is NT\$2,401,779 thousand.

**(9) Other receivables**

	March 31, 2018	December 31, 2017	March 31, 2017
Factoring receivables	\$ 1,596,280	\$ 2,515,843	\$ 2,349,835
Others	9,461,770	18,735,514	15,715,099
Total	<u>\$ 11,058,050</u>	<u>\$ 21,251,357</u>	<u>\$ 18,064,934</u>

The Company entered into several factoring agreements without recourse with financial institutions. According to those agreements, the Company does not take the risk of uncollectible trade receivables, but only the risk of loss due to commercial disputes. The Company did not provide any collateral, and the factoring agreements met the criteria of financial asset derecognition. The Company derecognized related trade receivables after deducting the estimated value of commercial disputes. Receivables from banks due to factoring agreement were NT\$1,596,280 thousand, NT\$2,515,843 thousand and NT\$2,349,835 thousand as of March 31, 2018, December 31, 2017, and March 31, 2017, respectively.

As of March 31, 2018, December 31, 2017, and March 31, 2017, trade receivables derecognized were as follows:

**A. As of March 31, 2018:**

The Factor (Transferee)	Interest rate	Trade receivables derecognized (US\$'000)	Cash withdrawn (US\$'000)	Unutilized (US\$'000)	Credit line (US\$'000)
Taishin International Bank	-	\$ 49,090	\$ -	\$ 49,090	\$ 88,000
BNP Paribas	-	5,640	-	5,640	107,000
HSBC	-	165	-	165	350
SMBC	-	(77)	-	(77)	10,000
Total		<u>\$ 54,818</u>	<u>\$ -</u>	<u>\$ 54,818</u>	<u>\$ 205,350</u>

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

B. As of December 31, 2017:

The Factor (Transferee)	Interest rate	Trade receivables derecognized (US\$'000)	Cash withdrawn (US\$'000)	Unutilized (US\$'000)	Credit line (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		<u>\$ 84,289</u>	<u>\$ -</u>	<u>\$ 84,289</u>	<u>\$ 221,350</u>

C. As of March 31, 2017:

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

## (10) Inventories

	March 31, 2018	December 31, 2017	March 31, 2017
Raw materials	\$ 4,267,589	\$ 2,601,306	\$ 3,212,209
Work in progress	16,978,290	11,839,039	19,136,322
Finished goods	12,073,732	12,099,269	15,272,289
Net amount	<u>\$ 33,319,611</u>	<u>\$ 26,539,614</u>	<u>\$ 37,620,820</u>

For the three months ended March 31, 2018 and 2017, the cost of inventories recognized in expenses amounted to NT\$30,569,299 thousand and NT\$37,293,025 thousand, including the write-down of inventories of NT\$137,814 thousand and NT\$2,603,284 thousand for the three months ended March 31, 2018 and 2017, respectively.

Inventories were not pledged.

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

	March 31, 2018	December 31, 2017	March 31, 2017
Prepaid expenses	\$ 629,106	\$ 534,954	\$ 493,861
Input tax	371,891	235,532	377,333
Others	723,044	619,946	769,162
Total	<u>\$ 1,724,041</u>	<u>\$ 1,390,432</u>	<u>\$ 1,640,356</u>

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

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

Investees	March 31, 2018		December 31, 2017		March 31, 2017	
	Carrying amount	Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)
Investments in associates:						
MOUNTAIN CAPITAL FUND, L.P.	\$ 1,442,724	42	\$ 810,527	42	\$ 823,834	42
FONTAINE CAPITAL FUND, L.P.	1,222,504	57	569,146	57	543,498	55
Others	988,662	-	530,159	-	575,615	-
Subtotal	<u>3,653,890</u>		<u>1,909,832</u>		<u>1,942,947</u>	
Investments in jointly controlled entities:						
Yuan Ke (Pingtan) Investment Fund Limited Partnership	11,336,149	81	3,867,272	81	3,930,447	81
Subtotal	<u>11,336,149</u>		<u>3,867,272</u>		<u>3,930,447</u>	
Total	<u>\$ 14,990,039</u>		<u>\$ 5,777,104</u>		<u>\$ 5,873,394</u>	

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

Subsidiary 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. (33) for more details.

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

(1) Investments in associates

	Three months ended March 31	
	2018	2017
(Loss) profit from continuing operations	\$ (10,777)	\$ 2,166
Other comprehensive income (post-tax)	15,305	2,855
Total comprehensive income	<u>\$ 4,528</u>	<u>\$ 5,021</u>

(2) Investments in jointly controlled entities

	Three months ended March 31	
	2018	2017
Profit from continuing operations	\$ 12,832	\$ 31,011
Other comprehensive income (post-tax)	-	-
Total comprehensive income	<u>\$ 12,832</u>	<u>\$ 31,011</u>

The associates and jointly controlled entities had no contingent liabilities or capital commitments and investments in associates and jointly controlled entities were not pledged as of March 31, 2018, December 31, 2017, and March 31, 2017.

**MEDIATEK INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(13) Property, plant and equipment**

				Computer and			Construction in	
		Buildings and	Machinery	telecommunication	Testing	Miscellaneous	progress and	
	Land	facilities	equipment	equipment	equipment	equipment	equipment awaiting	Total
							examination	
Cost:								
As of January 1, 2018	\$ 5,196,705	\$27,212,618	\$ 1,425,053	\$ 5,689,417	\$ 7,602,174	\$ 2,305,629	\$ 846,426	\$ 50,278,022
Additions-acquired separately	-	770,925	8,096	119,116	382,325	89,897	365,258	1,735,617
Disposals	-	(1,682)	(187)	(24,378)	(22,376)	(92,037)	-	(140,660)
Transfers	290,240	125,865	12,004	(17,163)	(752)	10,746	(441,153)	(20,213)
Exchange differences	-	165,250	329	(7,208)	23,220	(19,121)	385	162,855
As of March 31, 2018	<u>\$ 5,486,945</u>	<u>\$28,272,976</u>	<u>\$ 1,445,295</u>	<u>\$ 5,759,784</u>	<u>\$ 7,984,591</u>	<u>\$ 2,295,114</u>	<u>\$ 770,916</u>	<u>\$ 52,015,621</u>
As of January 1, 2017	\$ 5,108,639	\$21,282,705	\$ 1,210,479	\$ 5,000,627	\$ 6,861,389	\$ 2,284,831	\$ 6,036,276	\$ 47,784,946
Additions-acquired separately	-	58,599	37,844	174,341	232,128	110,778	55,989	669,679
Additions-acquired through business combinations	-	-	80,586	-	-	6,830	-	87,416
Disposals	-	(2,750)	(19)	(40,181)	(27,489)	(72,100)	(176)	(142,715)
Transfers	2,964	(217,481)	12,373	-	3,151	10,193	(34,685)	(223,485)
Exchange differences	(2)	(440,558)	(2,124)	(109,160)	(114,657)	(61,751)	(285,147)	(1,013,399)
As of March 31, 2017	<u>\$ 5,111,601</u>	<u>\$20,680,515</u>	<u>\$ 1,339,139</u>	<u>\$ 5,025,627</u>	<u>\$ 6,954,522</u>	<u>\$ 2,278,781</u>	<u>\$ 5,772,257</u>	<u>\$ 47,162,442</u>

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

	Land	Buildings and facilities	Machinery equipment	Computer and telecommunication equipment	Testing equipment	Miscellaneous equipment	Construction in progress and equipment awaiting examination	Total
Depreciation and impairment:								
As of January 1, 2018	\$ -	\$ 3,543,549	\$ 535,742	\$ 3,407,765	\$ 4,496,269	\$ 1,356,057	\$ -	\$ 13,339,382
Depreciation	-	200,259	68,651	269,342	261,644	134,644	-	934,540
Disposals	-	(1,597)	(187)	(23,144)	(18,147)	(91,989)	-	(135,064)
Transfers	-	-	1,213	(17,163)	(1,214)	(30)	-	(17,194)
Exchange differences	-	6,383	(859)	(3,028)	14,327	(13,844)	-	2,979
As of March 31, 2018	\$ -	\$ 3,748,594	\$ 604,560	\$ 3,633,772	\$ 4,752,879	\$ 1,384,838	\$ -	\$ 14,124,643
As of January 1, 2017	\$ -	\$ 2,903,910	\$ 271,703	\$ 2,772,783	\$ 3,700,970	\$ 1,277,840	\$ -	\$ 10,927,206
Depreciation	-	147,702	60,376	233,612	250,847	149,946	-	842,483
Disposals	-	(2,210)	(19)	(38,257)	(27,441)	(71,276)	-	(139,203)
Transfers	-	(7,833)	-	-	-	-	-	(7,833)
Exchange differences	-	(19,827)	(1,140)	(74,120)	(71,192)	(48,172)	-	(214,451)
As of March 31, 2017	\$ -	\$ 3,021,742	\$ 330,920	\$ 2,894,018	\$ 3,853,184	\$ 1,308,338	\$ -	\$ 11,408,202
Net carrying amount as of:								
March 31, 2018	\$ 5,486,945	\$ 24,524,382	\$ 840,735	\$ 2,126,012	\$ 3,231,712	\$ 910,276	\$ 770,916	\$ 37,890,978
December 31, 2017	\$ 5,196,705	\$ 23,669,069	\$ 889,311	\$ 2,281,652	\$ 3,105,905	\$ 949,572	\$ 846,426	\$ 36,938,640
March 31, 2017	\$ 5,111,601	\$ 17,658,773	\$ 1,008,219	\$ 2,131,609	\$ 3,101,338	\$ 970,443	\$ 5,772,257	\$ 35,754,240

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



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

## (14) Investment property

	Land	Buildings and facilities	Total
Cost:			
As of January 1, 2018	\$ 201,536	\$ 739,274	\$ 940,810
Exchange differences	-	7,036	7,036
As of March 31, 2018	<u>\$ 201,536</u>	<u>\$ 746,310</u>	<u>\$ 947,846</u>
As of January 1, 2017	\$ 199,661	\$ 490,073	\$ 689,734
Transfers	-	166,735	166,735
Exchange differences	-	(22,552)	(22,552)
As of March 31, 2017	<u>\$ 199,661</u>	<u>\$ 634,256</u>	<u>\$ 833,917</u>
Depreciation and impairment:			
As of January 1, 2018	\$ -	\$ 67,159	\$ 67,159
Depreciation	-	4,764	4,764
Exchange differences	-	708	708
As of March 31, 2018	<u>\$ -</u>	<u>\$ 72,631</u>	<u>\$ 72,631</u>
As of January 1, 2017	\$ -	\$ 38,326	\$ 38,326
Depreciation	-	3,087	3,087
Transfers	-	8,571	8,571
Exchange differences	-	(1,969)	(1,969)
As of March 31, 2017	<u>\$ -</u>	<u>\$ 48,015</u>	<u>\$ 48,015</u>
Net carrying amount as of:			
March 31, 2018	<u>\$ 201,536</u>	<u>\$ 673,679</u>	<u>\$ 875,215</u>
December 31, 2017	<u>\$ 201,536</u>	<u>\$ 672,115</u>	<u>\$ 873,651</u>
March 31, 2017	<u>\$ 199,661</u>	<u>\$ 586,241</u>	<u>\$ 785,902</u>

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

	Three months ended March 31	
	2018	2017
Rental income from investment properties	\$ 22,084	\$ 11,779
Less:		
Direct operating expenses from investment properties generating rental income	(4,764)	(3,087)
Total	<u>\$ 17,320</u>	<u>\$ 8,692</u>

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

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

Based on comparative approach:	March 31, 2018	December 31, 2017	March 31, 2017
Fair value	<u>\$ 1,172,269</u>	<u>\$ 1,136,818</u>	<u>\$ 957,149</u>
Based on comparative approach and income approach:	March 31, 2018	December 31, 2017	March 31, 2017
Fair value	<u>\$ 262,578</u>	<u>\$ 262,578</u>	<u>\$ 254,334</u>
Income capitalization rate	<u>0.89%-2.64%</u>	<u>0.89%-2.64%</u>	<u>1.23%-2.67%</u>

The fair value of investment properties were NT\$1,399,396 thousand and NT\$951,645 thousand as of December 31, 2017 and 2016, respectively. The Company's management assessed that the fair value of its investment properties did not change significantly in the three months ended March 31, 2018 and 2017.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

(15) Intangible assets

	Trademarks	Software	Customer relationship	Patents, IPs and others	Goodwill	Total
Cost:						
As of January 1, 2018	\$ 772,487	\$ 2,977,133	\$ 5,114,146	\$ 9,642,915	\$ 65,446,925	\$ 83,953,606
Additions-acquired separately	-	94,461	-	40,803	-	135,264
Disposals	-	(542)	-	-	-	(542)
Transfers	-	3,019	-	-	-	3,019
Exchange differences	-	476	-	(51,762)	(12,657)	(63,943)
As of March 31, 2018	<u>\$ 772,487</u>	<u>\$ 3,074,547</u>	<u>\$ 5,114,146</u>	<u>\$ 9,631,956</u>	<u>\$ 65,434,268</u>	<u>\$ 84,027,404</u>
As of January 1, 2017	\$ 772,487	\$ 2,015,534	\$ 5,114,146	\$ 8,716,232	\$ 63,386,805	\$ 80,005,204
Additions-acquired separately	-	667,551	-	3,342,150	-	4,009,701
Additions-acquired through business combinations	-	63,268	-	12,813	2,964,519	3,040,600
Disposals	-	(377)	-	(3,588,179)	-	(3,588,556)
Transfers	-	-	-	-	64,130	64,130
Exchange differences	-	(2,795)	-	(149,933)	(35,559)	(188,287)
As of March 31, 2017	<u>\$ 772,487</u>	<u>\$ 2,743,181</u>	<u>\$ 5,114,146</u>	<u>\$ 8,333,083</u>	<u>\$ 66,379,895</u>	<u>\$ 83,342,792</u>

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

	Trademarks	Software	Customer relationship	Patents, IPs and others	Goodwill	Total
Amortization and impairment:						
As of January 1, 2018	\$ 392,194	\$ 2,044,968	\$ 2,118,267	\$ 3,369,097	\$ -	\$ 7,924,526
Amortization	28,150	147,186	123,090	536,032	-	834,458
Disposals	-	(542)	-	-	-	(542)
Exchange differences	-	10	-	(17,394)	-	(17,384)
As of March 31, 2018	<u>\$ 420,344</u>	<u>\$ 2,191,622</u>	<u>\$ 2,241,357</u>	<u>\$ 3,887,735</u>	<u>\$ -</u>	<u>\$ 8,741,058</u>
As of January 1, 2017	\$ 279,595	\$ 1,549,914	\$ 1,441,288	\$ 4,719,853	\$ -	\$ 7,990,650
Amortization	28,150	87,787	160,014	616,672	-	892,623
Disposals	-	(377)	-	(3,588,179)	-	(3,588,556)
Exchange differences	-	2,227	-	(60,071)	-	(57,844)
As of March 31, 2017	<u>\$ 307,745</u>	<u>\$ 1,639,551</u>	<u>\$ 1,601,302</u>	<u>\$ 1,688,275</u>	<u>\$ -</u>	<u>\$ 5,236,873</u>
Net carrying amount as of:						
March 31, 2018	<u>\$ 352,143</u>	<u>\$ 882,925</u>	<u>\$ 2,872,789</u>	<u>\$ 5,744,221</u>	<u>\$ 65,434,268</u>	<u>\$ 75,286,346</u>
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>
March 31, 2017	<u>\$ 464,742</u>	<u>\$ 1,103,630</u>	<u>\$ 3,512,844</u>	<u>\$ 6,644,808</u>	<u>\$ 66,379,895</u>	<u>\$ 78,105,919</u>

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

The Company has no intangible assets with indefinite lives. Goodwill acquired through business combination has been allocated to a cash-generating unit which is expected to benefit from synergies of the business combination and has been assessed for impairment of the recoverable amount of goodwill at the end of each year. The recoverable amount has been determined based on the value-in-use calculated using cash flow projections discounted by the pre-tax discount rate from a five-year period financial budget. The projected cash flows reflect the change in demand for products and services. The Company had assessed for impairment of the recoverable amount of goodwill on December 31, 2017. The Company did not identify any impairment of goodwill for the year ended December 31, 2017.

**(17) Short-term borrowings**

	March 31, 2018	December 31, 2017	March 31, 2017
Unsecured bank loans	\$ 56,625,391	\$ 64,315,682	\$ 60,828,192
Secured bank loans	6,075,078	-	-
Total	<u>\$ 62,700,469</u>	<u>\$ 64,315,682</u>	<u>\$ 60,828,192</u>
Interest rates	<u>1.55~5%</u>	<u>1.66~5%</u>	<u>1.16~1.94%</u>

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

**(18) Other payables**

	March 31, 2018	December 31, 2017	March 31, 2017
Accrued salaries and bonuses	\$ 13,153,179	\$ 18,688,236	\$ 15,428,731
Accrued royalties	1,880,845	1,836,863	2,041,925
Others	11,337,860	15,271,191	13,815,906
Total	<u>\$ 26,371,884</u>	<u>\$ 35,796,290</u>	<u>\$ 31,286,562</u>

**MEDIATEK INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(19) Other current liabilities**

	March 31, 2018	December 31, 2017	March 31, 2017
Sales returns and allowance (Note)	\$ 11,647,405	\$ -	\$ -
Advance sales receipts	-	1,189,268	1,765,867
Others	245,997	336,100	420,608
Total	<u>\$ 11,893,402</u>	<u>\$ 1,525,368</u>	<u>\$ 2,186,475</u>

Note: The Company adopted IFRS 15 since January 1, 2018. A provision has been recognized for sales returns and allowance based on past experience and other known factors.

**(20) Long-term borrowings**

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

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

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

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

Lenders	As of		Maturity date and terms of repayment
	December 31, 2017	Interest 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 March 31, 2017 are as follows:

Lenders	As of		Maturity date and terms of repayment
	March 31, 2017	Interest Rate (%)	
Unsecured long-term loan from Mega International Commercial Bank	\$ 15,000	1.79%	Effective from May 10, 2018, principle is repaid in 21 quarterly payments with monthly interest 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 UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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

(21) Post-employment benefits plans

Defined contribution plan

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

Pension expenses under the defined contribution plan for the three months ended March 31, 2018 and 2017 were NT\$445,227 thousand and NT\$414,426 thousand, respectively.

Defined benefits plan

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

Pension expenses under the defined benefits plan for the three months ended March 31, 2018 and 2017 were NT\$4,714 thousand and NT\$6,281 thousand, respectively.

(22) Equity

A. Share capital

MTK's authorized capital as of March 31, 2018, December 31, 2017, and March 31, 2017 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\$15,814,371 thousand, NT\$15,814,140 thousand, and NT\$15,821,119 thousand, divided into 1,581,437,115 shares, 1,581,413,973 shares, and 1,582,111,907 shares as of March 31, 2018, December 31, 2017, and March 31, 2017, respectively. Each share has one voting right and a right to receive dividends.



**MEDIATEK INC. AND SUBSIDIARIES**

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

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

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

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

**B. Capital surplus**

	March 31, 2018	December 31, 2017	March 31, 2017
Additional paid-in capital	\$ 83,771,931	\$ 83,765,699	\$ 85,867,533
Treasury share transactions	1,529,750	1,529,750	1,455,706
The differences between the fair value of the consideration paid or received from acquiring or disposing subsidiaries and the carrying amounts of the subsidiaries	-	-	81,955
Changes in ownership interests in subsidiaries	1,146,807	1,146,807	1,244,843
Donated assets	1,261	1,261	1,261
From share of changes in net assets of associates	-	4,326	5,173
Employee stock options	498,474	498,474	503,521
Restricted stocks for employees	1,124,575	1,129,630	1,660,019
Others	134,278	134,872	111,014
Total	<u>\$ 88,207,076</u>	<u>\$ 88,210,819</u>	<u>\$ 90,931,025</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.

**MEDIATEK INC. AND SUBSIDIARIES**

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

**C. Treasury shares**

As of March 31, 2018, December 31, 2017, and March 31, 2017, 7,794,085 shares of MTK's common shares amounting to NT\$55,970 thousand were held by the subsidiary, MediaTek Capital Corp. These shares held by MediaTek Capital Corp. were acquired for the purpose of financing before the amendment of the Company Act on November 12, 2001.

As of March 31, 2018, December 31, 2017, and March 31, 2017, MTK did not hold any other treasury shares.

**D. Retained earnings and dividend policy**

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

- a. Reserve for tax payments;
- b. Offset accumulated losses in previous years, if any;
- c. Legal reserve, which is 10% of leftover profits. However, this restriction does not apply in the event that the amount of the accumulated legal reserve equals or exceeds the Company's total capital stock;
- d. Allocation or reverse of special reserves as required by law or government authorities;
- e. The remaining net profits and the retained earnings from previous years will be allocated as shareholders' dividend. The Board of Directors will prepare a distribution proposal and submit the same to the shareholders' meeting for review and approval by a resolution.

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

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

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

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

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

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

The appropriations of earnings for 2017 were resolved by the Board of Directors' meeting on April 27, 2018, subject to the resolution of general shareholders' meeting which will be held on June 15, 2018. The appropriations of earnings for 2016 were resolved by the general shareholders' meeting on June 15, 2017. The details of the distribution are as follows:

	Appropriation of earnings		Dividends per share (NT\$)	
	2017	2016	2017	2016
Legal reserve	\$ 2,433,260	\$ 2,370,060	-	-
Cash dividends-common stock	11,844,548	12,652,827	\$ 7.50	\$ 8.00
Total	<u>\$ 14,277,808</u>	<u>\$ 15,022,887</u>		

In addition, the Board of Directors' meeting on April 27, 2018 and the general shareholders' meeting on June 15, 2017 resolved to distribute the paid in capital by cash in the amount of NT\$3,948,182 thousand and NT\$2,372,405 thousand, or NT\$2.5 per share and NT\$1.5 per share, respectively.

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

## E. Non-controlling interests

	Three months ended March 31	
	2018	2017
Beginning balance	\$ 1,387,370	\$ 1,883,968
Gains (losses) attributable to non-controlling interests	15,376	(63,107)
Other comprehensive income (losses), attributable to non-controlling interests, net of tax:		
Exchange differences resulting from translating the financial statements of foreign operations	7,391	(45,054)
Changes in ownership interests in subsidiaries	-	790,606
Acquisition through business combinations	-	719,435
Others	-	(478,324)
Ending balance	\$ 1,410,137	\$ 2,807,524

## (23) 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.

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

Detail information relevant to the share-based payment plan as of March 31, 2018 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	228,743	228,743	\$ 355.5
2008.08.28	1,640,285	402,358	402,358	342.1
2009.08.18	1,382,630	487,484	487,484	426.5
2010.08.27	1,605,757	616,993	616,993	402.0
2010.11.04	65,839	8,134	8,134	374.4
2011.08.24	2,109,871	1,030,118	1,030,118	275.5
2012.08.14	1,346,795	820,474	820,474	284.8
2013.08.22	1,436,343	1,049,841	1,049,841	368.0

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

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

	Employee Stock Option
Expected dividend yield (%)	2.43%~6.63%
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.

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

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

Employee Stock Option	Three months ended March 31			
	2018		2017	
	Weighted-average		Weighted-average	
	Options (Unit)	Exercise Price per Share (NT\$)	Options (Unit)	Exercise Price per Share (NT\$)
Outstanding at beginning of period	4,681,103	\$ 340.4	4,923,268	\$ 339.9
Granted	-	-	-	-
Exercised (Note)	(17,633)	280.4	-	-
Forfeited (Expired)	(19,325)	357.2	(23,201)	358.6
Outstanding at end of period	<u>4,644,145</u>	340.6	<u>4,900,067</u>	339.8
Exercisable at end of period	<u>4,644,145</u>		<u>4,468,886</u>	
Weighted-average fair value of options granted during the period (in NT\$)	<u>\$ -</u>		<u>\$ -</u>	

Note: The weighted average share price at the date of exercise of those options were NT\$329.4 for the three months ended March 31, 2018.

The information on the outstanding share-based payment plan as of March 31, 2018 and 2017 is as follows:

Date of grant	Range of Exercise Price (NT\$)	March 31, 2018		March 31, 2017	
		Outstanding stock options		Outstanding stock options	
		Weighted- average Expected	Weighted- average Exercise Price	Weighted- average Expected	Weighted- average Exercise Price
		Remaining Years	per Share (NT\$)	Remaining Years	per Share (NT\$)
2007.12.19	\$ 342.1~355.5	-	\$ 347.0	-	\$ 347.1
2009.07.27	426.5	-	426.5	-	426.6
2010.05.10	374.4~402.0	-	401.6	-	401.8
2011.08.09	275.5	-	275.5	0.92	275.6
2012.08.09	284.8	0.88	284.8	1.88	284.9
2013.08.09	368.0	1.92	368.0	2.92	368.0

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

Restricted stocks plan for employees of MTK

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

MTK has issued 10,528,505 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 expenses amounted to NT\$1,487,285 thousand in total based on the vesting conditions and will be recognized during the vesting period. As of March 31, 2018, MTK had recognized NT\$1,007,145 thousand as compensation expense and NT\$480,140 thousand as unearned employee compensation, which were recorded under salary expense and other equity, respectively.

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

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

**MEDIATEK INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**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 March 31, 2018. The total numbers of outstanding stock options were 846,279 units as of March 31, 2017.

Subsidiaries Cash-settled Share-based Payment Transactions

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

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

	<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>Three months ended March 31, 2017</u>	
	Unit	Weighted average
	(in thousand)	exercise price
		per Share (NT\$)
January 1, 2017	12	\$ 195
Granted	-	-
Exercised	(12)	195
Forfeited (Expired)	-	-
Outstanding at end of period	-	-
Exercisable at end of period	-	-

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



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

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.

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. (33) for relevant information for the merger with Airoha.

Share-based compensation expenses recognized (reversal) for employee services received for the three months ended March 31, 2018 and 2017, are shown in the following table:

	Three months ended March 31	
	2018	2017
Employee stock options	\$ -	\$ (9,888)
Restricted stocks for employees	112,620	216,977
Total	<u>\$ 112,620</u>	<u>\$ 207,089</u>

The Company did not modify or cancel any share-based payment plans for the three months ended March 31, 2018 and 2017.

**(24) Sales**

	Three months ended March 31	
	2018(Note)	2017
Revenue from contracts with customers		
Sale of goods	\$ 48,797,653	\$ 55,424,306
Services and other operating revenues	856,334	658,415
Total	<u>\$ 49,653,987</u>	<u>\$ 56,082,721</u>

Note: The Company has adopted IFRS 15 since January 1, 2018. The Company elected to apply the standard retrospectively by recognizing the cumulative effect of initially applying the standard at the date of initial application.

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

The Company has adopted IFRS 15 since 1 January 2018. Relevant information of revenue from contracts with customers for the three months ended March 31, 2018 is as follows:

**A. Disaggregation of revenue**

	Three months ended March 31, 2018
Sale of goods	\$ 48,797,653
Services and other operating revenues	856,334
Total	<u>\$ 49,653,987</u>
Revenue recognition point:	
At a point in time	\$ 48,860,524
Satisfies the performance obligation over time	793,463
Total	<u>\$ 49,653,987</u>

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

	Beginning balance	Ending balance	Difference
Sales of goods	\$ 1,057,970	\$ 978,700	\$ (79,270)
Services and other operating revenues	371,385	276,610	(94,775)
Total	<u>\$ 1,429,355</u>	<u>\$ 1,255,310</u>	<u>\$ (174,045)</u>

During the three months ended March 31, 2018, contract liabilities significantly decreased as most performance obligations have been satisfied. NT\$462,012 thousand included in the beginning balance had been recognized as revenue during the period.

**C. Transaction price allocated to unsatisfied performance obligations**

As of March 31, 2018, there is no need to provide relevant information of the unsatisfied performance obligations as the contracts with customers about the sales of goods are all lower than one year. Besides, the summarized amounts of transaction price allocated to unsatisfied performance obligations about rendering of services are NT\$579,488 thousands. The Company will recognized revenue with the stage of completion of the contracts. Those contracts are expected to complete within the next 1 to 2 years.

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

## (25) Expected credit gains

	Three months ended March 31	
	2018	2017 (Note)
Operating expenses – Expected credit gains		
Trade receivables	\$ 108,994	

Note: The Company has adopted IFRS 9 since January 1, 2018. The Company elected not to apply restate prior periods in accordance with the transition provision in IFRS 9.

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

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

The Company need to consider the grouping of trade receivables by counterparties' credit rating, by geographical region and by industry sector and its loss allowance is measured by using a provision matrix, details as follows:

	Neither past due (Note)	Past due				Total
		Within 30 days	31-60 days	61-90 days	91-120 days	
Gross carrying amount	\$ 24,654,146	\$ 485,470	\$ 128,963	\$ 534,467	\$ 248,809	\$ 26,051,855
Loss ratio	0%	0%	0%	10%	20%~100%	
Lifetime expected credit losses	-	-	-	(53,447)	(159,636)	(213,083)
Carrying amount of trade receivables	\$ 24,654,146	\$ 485,470	\$ 128,963	\$ 481,020	\$ 89,173	\$ 25,838,772

Note: The Company's note receivables are not overdue.

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

	Note receivables	Trade receivables
Beginning balance (in accordance with IAS 39)	\$ -	\$ 331,984
Beginning adjusted retained earnings	-	-
Beginning balance (in accordance with IFRS 9)	\$ -	\$ 331,984
Reversal for the current period	-	(108,994)
Write off	-	(6,473)
Effect of changes in exchange rate	-	(3,434)
Ending balance	\$ -	\$ 213,083

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

- (26) Summary statement of employee benefits, depreciation and amortization expenses by function for the three months ended March 31, 2018 and 2017:

	Three months ended March 31					
	2018			2017		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Pension	\$ 8,091	\$ 441,850	\$ 449,941	\$ 6,793	\$ 413,914	\$ 420,707
Others	\$ 183,078	\$ 10,039,385	\$ 10,222,463	\$ 166,595	\$ 10,490,426	\$ 10,657,021
Depreciation	\$ 53,651	\$ 885,653	\$ 939,304	\$ 52,357	\$ 793,213	\$ 845,570
Amortization	\$ 164	\$ 834,294	\$ 834,458	\$ 178	\$ 892,445	\$ 892,623

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

MTK accrued employees' compensation and remuneration to directors based on a specific rate of profit of the three months ended March 31, 2018, and 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. The amounts of employees' compensation and remunerations to directors were NT\$33,390 thousand and NT\$4,508 thousand for the three months ended March 31, 2018, respectively. The amounts of employees' compensation and remunerations to directors were NT\$80,229 thousand and NT\$10,831 thousand for the three months ended March 31, 2017, respectively. The employees' compensation and remuneration to directors was recognized as salary expense.

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.

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

There were no material differences between the actual distribution amounts of employees' compensation and remuneration to directors and the amounts charged against earnings in 2016.

**(27) Other income**

	Three months ended March 31	
	2018	2017
Interest income	(Note)	\$ 512,648
Financial assets measured at amortized cost	\$ 681,257	(Note)
Financial assets at fair value through other comprehensive income	115,746	(Note)
Subtotal	797,003	
Rental income	32,327	30,350
Dividend income	23,288	15,994
Others	37,446	28,539
Total	\$ 890,064	\$ 587,531

Note: The Company adopted IFRS 9 since January 1, 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

**(28) Other gains and losses**

	Three months ended March 31	
	2018	2017
Losses on disposal of property, plant and equipment	\$ (1,076)	\$ (2,019)
(Losses) gains on disposal of investments		
Non-current assets held for sale	-	5,123,575
Available-for-sale financial assets	(Note 1)	(44,861)
Debt instruments measured at fair value through other comprehensive income	(5,013)	(Note 1)
Investments accounted for using the equity method	-	1,487,066
Foreign exchange losses	(28,030)	(455,032)
Impairment losses		
Available-for-sale financial assets	(Note 1)	(63,520)
Financial assets measured at cost	(Note 1)	(269,673)
Investments accounted for using the equity method	(22,760)	-
Gains on financial assets at fair value through profit or loss (Note 2)	385,874	242,360
Losses on financial liabilities at fair value through profit or loss (Note 3)	(325)	(42,683)
Others	(51,661)	(140,879)
Total	\$ 277,009	\$ 5,834,334

**MEDIATEK INC. AND SUBSIDIARIES**

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

Note:

1. The Company adopted IFRS 9 since January 1, 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.
2. Balance in the three months ended March 31, 2018 was arising from financial assets mandatorily measured at fair value through profit or loss and balance in the three months ended March 31, 2017 was arising from held for trading financial assets and financial assets designated upon initial recognition at fair value through profit or loss.
3. Balance in the three months ended March 31, 2018 and 2017 were both arising from held for trading financial liabilities.

(29) Finance costs

	Three months ended March 31	
	2018	2017
Interest expenses on borrowings	\$ 407,185	\$ 159,849

**MEDIATEK INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(30) Components of other comprehensive income**

For the three months ended March 31, 2018 :

	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	\$ (52)	\$ -	\$ (52)	\$ (15,668)	\$ (15,720)
Unrealized gains from equity instrument investments measured at fair value through other comprehensive income	966,482	-	966,482	(123,335)	843,147
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	1,391,964	-	1,391,964	-	1,391,964
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	(1,269,868)	-	(1,269,868)	-	(1,269,868)
Unrealized gains from debt instrument investments measured at fair value through other comprehensive income	18,150	5,013	23,163	(16)	23,147
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(5,759)	-	(5,759)	-	(5,759)
Total of other comprehensive income	\$ 1,100,917	\$ 5,013	\$ 1,105,930	\$ (139,019)	\$ 966,911

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

For the three months ended March 31, 2017 :

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

Upon derecognition of the Company's debt instrument investments measured at fair value through other comprehensive income, the cumulative gain or loss of NT\$(5,013) thousand for the three months ended March 31, 2018 which was recognized in other comprehensive income was reclassified to profit or loss.



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

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

The major components of income tax expense are as follows:

	Three months ended March 31	
	2018	2017
Current income tax expense:		
Current income tax charge	\$ 789,322	\$ 1,352,764
Deferred tax expense (income):		
Deferred tax expense (income) relating to origination and reversal of temporary differences	101,793	(437,365)
Deferred tax (income) expense relating to origination and reversal of tax loss and tax credit	(197,985)	9,216
Deferred tax income relating to changes in tax rate or the imposition of new taxes	(447,634)	-
Deferred tax expense arising from write-down or reversal of write-down of deferred tax asset	199,151	(19,135)
Others	7,620	(43,523)
Income tax expense	<u>\$ 452,267</u>	<u>\$ 861,957</u>

**Income tax recognized in other comprehensive income**

	Three months ended March 31	
	2018	2017
Deferred tax expense:		
Remeasurements of the defined benefit plan	\$ 15,668	\$ -
Unrealized gains from equity instrument investments measured at fair value through other comprehensive income	123,335	-
Unrealized gains from debt instrument investments measured at fair value through other comprehensive income	16	-
Unrealized gains on available-for-sale financial assets	-	549,416
Income tax relating to components of other comprehensive income	<u>\$ 139,019</u>	<u>\$ 549,416</u>

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

As of March 31, 2018, 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 2016	
Subsidiary- Hsu-Si Investment Corp.	Assessed and approved up to 2016	
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.

**(32) Earnings per share**

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

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

	Three months ended March 31	
	2018	2017
A. Basic earnings per share		
Profit attributable to ordinary equity owners of the parent (in thousand NT\$)	\$ 2,644,868	\$ 6,702,264
Weighted average number of ordinary shares outstanding for basic earnings per share (share)	1,564,899,138	1,563,789,601
Basic earnings per share (NT\$)	\$ 1.69	\$ 4.29

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

	Three months ended March 31	
	2018	2017
B. Diluted earnings per share		
Profit attributable to ordinary equity owners of the parent (in thousand NT\$)	\$ 2,644,868	\$ 6,702,264
Weighted average number of ordinary shares outstanding for basic earnings per share (share)	1,564,899,138	1,563,789,601
Effect of dilution:		
Employees' compensation-stock (share)	897,162	1,567,865
Employee stock options (share) (Note)	197,373	-
Restricted stocks for employees (share)	7,199,589	4,777,549
Weighted average number of ordinary shares outstanding after dilution (share)	1,573,193,262	1,570,135,015
Diluted earnings per share (NT\$)	\$ 1.68	\$ 4.27

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

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.

**(33) Business combinations**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.

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

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 Company 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.

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.

**MEDIATEK INC. AND SUBSIDIARIES****NOTES TO UNAUDITED 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	\$ 1,399,093
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 comprised the value of expected synergies arising from acquisition.

If the combination had taken place on January 1, 2017, revenues and net income of the Company for the three months ended March 31, 2017 would have been NT\$56,925,594 thousand and NT\$6,640,936 thousand, respectively.

**(34) Changes in ownership interests in subsidiaries**Changes in ownership of subsidiaries

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

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.

**(35) Subsidiaries that have material non-controlling interests**Airoha Technology Corp.

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

Proportion of equity interest held by non-controlling interests:

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

**MEDIATEK INC. AND SUBSIDIARIES**

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

Accumulated balances of material non-controlling interest:

	March 31, 2017
Airoha Technology Corp.	\$ 712,321

Loss allocated to material non-controlling interest:

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

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

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

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

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

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

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

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

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

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

Name and nature of relationship of the related parties

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

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

Significant transactions with the related parties

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

	<u>Three months ended March 31</u>	
	<u>2018</u>	<u>2017</u>
Other related parties		
King Yuan Electronics Co., Ltd.	\$ 620,612	\$ 741,667

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

## (2) Consign research and development expenses and license expenses

	<u>Three months ended March 31</u>	
	<u>2018</u>	<u>2017</u>
Other related parties		
Andes Technology Corp.	\$ 1,486	\$ 21,794

## (3) Rental income

	<u>Three months ended March 31</u>	
	<u>2018</u>	<u>2017</u>
Associates		
Airoha Technology Corp.	\$ -	\$ 2,831
Other related parties		
Andes Technology Corp.	177	134
Total	\$ 177	\$ 2,965

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

## (4) Trade payables to related parties

	March 31, 2018	December 31, 2017	March 31, 2017
Other related parties			
King Yuan Electronics Co., Ltd.	\$ 622,484	\$ 571,593	\$ 737,767

## (5) Key management personnel compensation

	Three months ended March 31	
	2018	2017
Short-term employee benefits (Note)	\$ 212,296	\$ 218,981
Share-based payment	42,717	72,497
Post-employment benefits	877	1,548
Total	\$ 255,890	\$ 293,026

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

**8. Assets Pledged as Collateral**

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

	Carrying amount			
Assets pledged as collateral	March 31, 2018	December 31, 2017	March 31, 2017	Purpose of pledge
Financial assets measured at amortized cost-current	\$ 9,180	(Note)	(Note)	Customs clearance deposits
Financial assets measured at amortized cost-current	9,705	(Note)	(Note)	Lease execution deposits
Financial assets measured at amortized cost-current	5,257	(Note)	(Note)	Performance bond
Financial assets measured at amortized cost-noncurrent	505	(Note)	(Note)	Customs clearance deposits
Financial assets measured at amortized cost-noncurrent	112	(Note)	(Note)	Lease execution deposits
Financial assets measured at amortized cost-noncurrent	24,234	(Note)	(Note)	Customs clearance deposits
Financial assets measured at amortized cost-noncurrent	23,018	(Note)	(Note)	Land lease guarantee

(To be continued)



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

(Continued)

Assets pledged as collateral	Carrying amount			Purpose of pledge
	March 31, 2018	December 31, 2017	March 31, 2017	
Financial assets measured at amortized cost-noncurrent	7,000	(Note)	(Note)	Land lease guarantee
Financial assets measured at amortized cost-noncurrent	1,000	(Note)	(Note)	Customs clearance deposits
Financial assets measured at amortized cost-noncurrent	3,175	(Note)	(Note)	Customs clearance deposits
Financial assets measured at amortized cost-noncurrent	9,808	(Note)	(Note)	Lease execution deposits
Financial assets measured at amortized cost-noncurrent	6,075,078	(Note)	(Note)	Short-term borrowings
Debt instrument investments for which no active market exists-current	(Note)	\$ 9,180	\$ 9,180	Customs clearance deposits
Debt instrument investments for which no active market exists-current	(Note)	9,705	9,705	Lease execution deposits
Debt instrument investments for which no active market exists-current	(Note)	360	-	Performance bond
Debt instrument investments for which no active market exists-noncurrent	(Note)	-	3,160	Customs clearance deposits
Debt instrument investments for which no active market exists-noncurrent	(Note)	528	528	Customs clearance deposits
Debt instrument investments for which no active market exists-noncurrent	(Note)	117	117	Lease execution deposits
Debt instrument investments for which no active market exists-noncurrent	(Note)	-	200,000	Project performance deposits
Debt instrument investments for which no active market exists-noncurrent	(Note)	39,000	-	Court pledged

(To be continued)

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

(Continued)

Assets pledged as collateral	Carrying amount			Purpose of pledge
	March 31, 2018	December 31, 2017	March 31, 2017	
Debt instrument investments for which no active market exists-noncurrent	(Note)	24,234	24,157	Customs clearance deposits
Debt instrument investments for which no active market exists-noncurrent	(Note)	23,018	22,964	Land lease guarantee
Debt instrument investments for which no active market exists-noncurrent	(Note)	7,000	7,000	Land lease guarantee
Debt instrument investments for which no active market exists-noncurrent	(Note)	1,000	1,000	Customs clearance deposits
Debt instrument investments for which no active market exists-noncurrent	(Note)	3,175	3,171	Customs clearance deposits
Debt instrument investments for which no active market exists-noncurrent	(Note)	9,808	9,694	Lease execution deposits
Property, plant and equipment - buildings and facilities	327,831	331,050	416,274	Long-term borrowings
Property, plant and equipment - buildings and land	330,238	331,506	335,310	Long-term borrowings
Investment property-buildings and facilities	78,976	79,745	-	Long-term borrowings
Total	<u>\$ 6,905,117</u>	<u>\$ 869,426</u>	<u>\$ 1,042,260</u>	

Note: The Company adopted IFRS 9 since January 1, 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

**9. Contingencies and Off Balance Sheet Commitments**

**(1) Operating lease commitments-the Company as lessee**

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

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

	March 31, 2018	December 31, 2017	March 31, 2017
Not later than one year	\$ 566,969	\$ 585,929	\$ 622,374
Later than one year but not later than five years	825,994	844,803	995,537
Later than five years	334,143	225,302	436,103
Total	<u>\$ 1,727,106</u>	<u>\$ 1,656,034</u>	<u>\$ 2,054,014</u>

Operating lease expenses are as follows:

	Three months ended March 31	
	2018	2017
Minimum lease payments	<u>\$ 171,410</u>	<u>\$ 201,213</u>

**(2) Legal claim contingency**

A. 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 court dismissed the claims with prejudice against MTK and MediaTek USA Inc. pursuant to the parties’ joint stipulation on April 18, 2018.

B. 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.

C. 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 court dismissed the claims against MediaTek USA Inc. on April 10, 2018.

The Company will handle these cases carefully.

**MEDIATEK INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****10. Losses due to Major Disasters**

None

**11. Significant Subsequent Events**

None

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

	March 31, 2018	December 31, 2017	March 31, 2017
Financial assets at fair value through profit or loss:			
Held for trading financial assets	\$ (Note 1)	\$ 27	\$ -
Designated at fair value through profit or loss at initial recognition	-	5,340,886	5,560,952
Mandatorily measured at fair value through profit or loss	10,470,368	(Note 1)	(Note 1)
Subtotal	10,470,368	5,340,913	5,560,952
Financial assets at fair value through other comprehensive income	47,010,394	(Note 1)	(Note 1)
Available-for-sale financial assets (Note 2)	(Note 1)	37,637,472	32,428,615
Financial assets measured at amortized cost (Note 3)	184,129,296	(Note 1)	(Note 1)
Financial assets measured at cost	(Note 1)	12,635,302	8,456,921
Loans and receivables (Note 4)	(Note 1)	184,642,610	177,091,881
Total	\$ 241,610,058	\$ 240,256,297	\$ 223,538,369

Financial liabilities

	March 31, 2018	December 31, 2017	March 31, 2017
Financial liabilities at fair value through profit or loss:			
Held for trading financial liabilities	\$ 325	\$ 18,144	\$ 42,683

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

	March 31, 2018	December 31, 2017	March 31, 2017
Financial liabilities at amortized cost:			
Short-term borrowings	62,700,469	64,315,682	60,828,192
Trade payables (including related parties)	28,580,799	23,584,452	31,296,908
Other payables	26,371,884	35,796,290	31,286,562
Long-term payables	837,343	1,726,364	1,299,549
Long-term borrowings (including current portion)	373,042	373,042	419,086
Subtotal	118,863,537	125,795,830	125,130,297
Total	<u>\$ 118,863,862</u>	<u>\$ 125,813,974</u>	<u>\$ 125,172,980</u>

## Note:

1. The Company adopted IFRS 9 since January 1, 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.
2. Balance as at December 31, 2017 and March 31, 2017 including financial assets measured at cost.
3. Includes cash and cash equivalents (exclude cash on hand), financial assets measured at amortized cost, notes receivable, trade receivables (including financial assets measured at fair value through profit or loss of NT\$2,401,779 thousand, please refer to Note. 6 (8) for further explanation) and other receivables.
4. Includes cash and cash equivalents (exclude cash on hand), notes receivable, trade receivables, debt instrument investments for which no active market exists and other receivables.

**B. Fair values of financial instruments**

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

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

- (a) The carrying amount of cash and cash equivalents, trade receivables, 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.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

- (c) Fair value of equity instruments without market quotations (including private placement of listed equity securities, unquoted public company and private company equity securities) are estimated using the market method valuation techniques based on parameters such as prices based on market transactions of equity instruments of identical or comparable entities and other relevant information (for example, inputs such as discount for lack of marketability, P/E ratio of similar entities and Price-Book ratio of similar entities).
- (d) The fair value of derivative financial instrument is based on market quotations. For unquoted derivatives that are not options, the fair value is determined based on discounted cash flow analysis using interest rate yield curve for the contract period. Fair value of option-based derivative financial instruments is obtained using the option pricing model.
- (e) The fair value of other financial assets and liabilities is determined using discounted cash flow analysis; the interest rate and discount rate are selected with reference to those of similar financial instruments.

b. Fair value of financial instruments measured at amortized cost

The carrying amount of the Company's partial 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:

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.

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

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 March 31, 2018

	Level 1	Level 2	Level 3	Total
<u>Financial assets:</u>				
Financial assets at fair value				
through profit or loss				
Bonds	\$ 464,102	\$ -	\$ 1,484,359	\$ 1,948,461
Forward exchange contracts	-	815	-	815
Linked deposits	-	246,950	3,609,813	3,856,763
Stocks	-	-	122,410	122,410
Funds	3,279,565	-	1,262,354	4,541,919
Financial assets at fair value				
through other comprehensive				
income				
Equity instruments measured at				
fair value through other				
comprehensive income	2,047,262	24,240,100	14,528,216	40,815,578
Debt instruments measured at				
fair value through other				
comprehensive income	3,479,904	-	2,714,912	6,194,816
Total	<u>\$ 9,270,833</u>	<u>\$ 24,487,865</u>	<u>\$ 23,722,064</u>	<u>\$ 57,480,762</u>
<u>Financial liabilities:</u>				
Financial liabilities at fair value				
through profit or loss				
Forward exchange contracts	<u>\$ -</u>	<u>\$ 325</u>	<u>\$ -</u>	<u>\$ 325</u>

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

Financial liabilities:

Financial liabilities at fair value

through profit or loss

Forward exchange contracts	<u>\$ -</u>	<u>\$ 18,144</u>	<u>\$ -</u>	<u>\$ 18,144</u>
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As of March 31, 2017

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

Financial liabilities:

Financial liabilities at fair value

through profit or loss

Forward exchange contracts	<u>\$ -</u>	<u>\$ 42,683</u>	<u>\$ -</u>	<u>\$ 42,683</u>
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For the three months ended March 31, 2018 and 2017, there were no transfers between Level 1 and Level 2 of the fair value hierarchy.



**MEDIATEK INC. AND SUBSIDIARIES**

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

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

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

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

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

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

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

Total (losses) gains related to bonds, funds and linked deposits on hand recognized for the three months ended March 31, 2018 and 2017 amounted to NT\$51,690 thousand and NT\$42,018 thousand, respectively.

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

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

As of March 31, 2018:

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

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

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

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

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

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

As of March 31, 2018

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

As of December 31, 2017

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

As of March 31, 2017

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

**D. Derivative financial instruments**

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

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

Forward exchange contracts	Currency	Contract amount ( '000)	Maturity
As of March 31, 2018	CNY to USD	Sell USD 2,000	April 2018
As of March 31, 2018	CNY to USD	Sell USD 2,000	May 2018
As of March 31, 2018	CNY to USD	Sell USD 1,000	June 2018
As of March 31, 2018	CNY to USD	Sell USD 2,000	July 2018
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 March 31, 2017	TWD to USD	Buy USD 50,000	April 2017
As of March 31, 2017	CNY to USD	Buy USD 149,328	April 2017

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

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

(2) Financial risk management objectives and policies

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

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

A. Market risk

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

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

a. Foreign currency risk

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

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.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

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

When NTD appreciates or depreciates against USD by 0.1%, the profit for the three months ended March 31, 2018 and 2017 increases/decreases by NT\$1,389 thousand and decreases/increases by NT\$4,261 thousand, while equity decreases/increases by NT\$81,222 thousand and NT\$69,912 thousand, respectively.

When NTD appreciates or depreciates against CNY by 0.1%, the profit for the three months ended March 31, 2018 and 2017 decreases/increases by NT\$1 thousand and increases/decreases by NT\$3 thousand, while equity decreases/increases by NT\$8,667 thousand and NT\$5,707 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 three months ended March 31, 2018 and 2017 to increase/decrease by NT\$4,195 thousand and NT\$2,144 thousand, respectively.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

c. Other price risk

The Company's listed and unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Company's equity securities are classified under equity instrument investments measured at fair value through profit or loss and equity instrument investments measured at fair value through other comprehensive income. The Company manages the equity price risk through diversification and placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Company's senior management on a regular basis. The Company's Board of Directors reviews and approves certain equity investments according to level of authority.

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

A change of 1% in the price of the listed companies stocks classified under equity instrument investments measured at fair value through other comprehensive income could cause the other comprehensive income for the three months ended March 31, 2018 to increase/decrease by NT\$297,673 thousand.

Please refer to Note 12. (1) B for sensitivity analysis information of other equity instruments or derivatives that are linked to such equity instruments whose fair value measurement is categorized under Level 3 of the fair value hierarchy.

B. Credit risk management

Credit risk is the risk that counterparty will not meet its obligations under a contract, leading to a financial loss. The Company is exposed to credit risk from operating activities (primarily for trade receivables) and from its financing activities, including bank deposits and other financial instruments.

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

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

As of March 31, 2018, December 31, 2017, and March 31, 2017 receivables from top ten customers represented 48.40%, 42.78%, and 41.58% of the total trade receivables of the Company, respectively. The credit concentration risk of other accounts receivables was insignificant.

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

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

The Company adopted IFRS 9 to assess the expected credit losses since January 1, 2018. Except for the loss allowance of trade receivables which is measured at lifetime expected credit losses, for debt instrument investments which are not measured at fair value through profit or loss and are at low credit risk upon acquisition, an assessment is made at each reporting date as to whether the credit risk has substantially increased in order to determine the method of measuring the loss allowance and the loss ratio. The impairment assessment method for the aforementioned debt instrument investments and related indicators are described as follows:



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

	Indicator	Loss ratio	Measurement method for expected credit losses
Low credit risk	No significant changes in credit status Counter parties with good credit rating	0%~0.5%	12-month expected credit losses
Credit risk significantly increased	Credit status became worse Contract payment overdue	0.5%~20%	Lifetime expected credit losses
Credit-impaired	The sign of credit events imminent Contract payment overdue 30 days Other impaired evidence	20%~100%	Lifetime expected credit losses

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

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

**C. Liquidity risk management**

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

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

	Less than 1 year	1 to 5 years	Later than 5 years	Total
<u>As of March 31, 2018</u>				
Short-term borrowings	\$ 62,890,381	\$ -	\$ -	\$ 62,890,381
Trade payables (including related parties)	28,580,799	-	-	28,580,799
Other payables	26,268,975	-	-	26,268,975
Long-term borrowings	42,106	244,988	107,352	394,446
Long-term payables	-	837,343	-	837,343
Total	<u>\$ 117,782,261</u>	<u>\$ 1,082,331</u>	<u>\$ 107,352</u>	<u>\$ 118,971,944</u>

As of December 31, 2017

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 March 31, 2017

Short-term borrowings	\$ 60,900,599	\$ -	\$ -	\$ 60,900,599
Trade payables (including related parties)	31,298,692	-	-	31,298,692
Other payables	31,265,149	-	-	31,265,149
Long-term payables	24,669	285,163	131,834	441,666
Total	<u>\$ 123,489,109</u>	<u>\$ 285,163</u>	<u>\$ 131,834</u>	<u>\$ 123,906,106</u>

Derivative financial instruments

	Less than 1 year	1 to 5 years	Total
<u>As of March 31, 2018</u>			
Gross settlement			
Forward exchange contracts			
Inflow	\$ 87,258	\$ -	\$ 87,258
Outflow	(87,360)	-	(87,360)
Net	<u>\$ (102)</u>	<u>\$ -</u>	<u>\$ (102)</u>

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

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

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

**D. Reconciliation of liabilities arising from financing activities**

Reconciliation of liabilities as at March 31, 2018:

	<u>Short-term borrowings</u>	<u>Long-term borrowings</u>	<u>Deposits received</u>	<u>Total liabilities from financing activities</u>
As of December 31, 2017	\$ 64,315,682	\$ 373,042	\$ 179,472	\$ 64,868,196
Cash flows	(1,287,081)	-	601	(1,286,480)
Foreign exchange movement	(328,132)	-	1,040	(327,092)
As of March 31, 2018	<u>\$ 62,700,469</u>	<u>\$ 373,042</u>	<u>\$ 181,113</u>	<u>\$ 63,254,624</u>

Reconciliation of liabilities as at March 31, 2017:

Not applicable

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

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

March 31, 2018			
	Foreign Currency (thousand)	Exchange rate	NT\$ (thousand)
<b>Financial assets</b>			
Monetary item:			
USD	\$ 4,422,905	29.120	\$ 128,795,005
CNY	\$ 69,458	4.641	\$ 322,352
Non-monetary item:			
USD	\$ 1,448,871	29.120	\$ 42,191,113
CNY	\$ 1,799,183	4.641	\$ 8,350,027
<b>Financial liabilities</b>			
Monetary item:			
USD	\$ 3,130,246	29.120	\$ 91,152,755
CNY	\$ 888	4.641	\$ 4,121
December 31, 2017			
	Foreign Currency (thousand)	Exchange rate	NT\$ (thousand)
<b>Financial assets</b>			
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
<b>Financial liabilities</b>			
Monetary item:			
USD	\$ 3,094,624	29.848	\$ 92,368,322
CNY	\$ 1,440,467	4.587	\$ 6,607,609

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

	March 31, 2017		
	Foreign Currency		
	(thousand)	Exchange rate	NT\$ (thousand)
<b>Financial assets</b>			
Monetary item:			
USD	\$ 4,654,143	30.336	\$ 141,188,088
CNY	\$ 520	4.407	\$ 2,294
Non-monetary item:			
USD	\$ 1,086,212	30.336	\$ 32,951,321
CNY	\$ 1,294,858	4.407	\$ 5,706,517
<b>Financial liabilities</b>			
Monetary item:			
USD	\$ 3,345,327	30.336	\$ 101,483,860
CNY	\$ 1,152	4.407	\$ 5,075

Functional currencies of entities of the Company are varied. Accordingly, the Company is not able to disclose the information of exchange gains and losses of monetary financial assets and liabilities by each significant assets and liabilities denominated in foreign currencies. The foreign exchange loss was NT\$28,030 thousand and NT\$455,032 thousand for the three months ended March 31, 2018 and 2017, respectively.

**(4) Capital management**

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

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

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