

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 SIX MONTHS ENDED

JUNE 30, 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 June 30, 2018 and 2017, the related consolidated statements of comprehensive income for the three-month and six-month periods ended June 30, 2018 and 2017, changes in equity and cash flows for the six-month periods ended June 30, 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 No. 34, “Interim Financial Reporting” as endorsed and became effective by Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on these consolidated financial statements based on our reviews.

Scope of Review

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

Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of MediaTek Inc. and its subsidiaries as at June 30, 2018 and 2017, their consolidated financial performance for the three-month and six-month periods ended June 30, 2018 and 2017, and cash flows for the six-month periods ended June 30, 2018 and 2017, in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard No. 34, “Interim Financial Reporting” as endorsed and became effective by Financial Supervisory Commission of the Republic of China.

Kuo, Shao-Pin

Fuh, Wen-Fun

Ernst & Young, Taiwan
July 31, 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 June 30, 2018, December 31, 2017, and June 30, 2017

(June 30, 2018 and 2017 are unaudited)

(Amounts in thousands of New Taiwan Dollars)

ASSETS	Notes	June 30, 2018	%	December 31, 2017	%	June 30, 2017	%
Current assets							
Cash and cash equivalents	6(1)	\$ 171,372,663	39	\$ 145,338,376	37	\$ 138,483,193	34
Financial assets at fair value through profit or loss-current	4, 5, 6(2)	4,115,357	1	724,507	-	265,313	-
Financial assets at fair value through other comprehensive income-current	4, 5, 6(3)	14,761,737	3	-	-	-	-
Available-for-sale financial assets-current	4, 5, 6(4)	-	-	23,291,828	6	14,869,097	4
Financial assets measured at amortized cost-current	4, 5, 6(5), 8	1,741,721	-	-	-	-	-
Debt instrument investments for which no active market exists-current	4, 5, 6(7), 8	-	-	765,445	-	1,327,633	-
Notes receivables, net	6(25)	402	-	2,811	-	402	-
Trade receivables, net	4, 5, 6(8), 6(25)	31,954,261	7	16,892,585	4	20,581,010	5
Trade receivables from related parties	4, 5, 6(8), 6(25), 7	1,598	-	-	-	-	-
Other receivables	6(9)	13,384,436	3	21,251,357	5	18,705,661	5
Current tax assets	4, 5, 6(31)	828,191	-	866,917	-	1,128,544	-
Inventories, net	4, 5, 6(10)	36,874,929	9	26,539,614	7	39,617,028	10
Prepayments	6(11)	2,223,012	1	1,390,432	-	1,708,215	1
Other current assets		909,281	-	1,600,624	1	1,523,959	-
Total current assets		278,167,588	63	238,664,496	60	238,210,055	59
Non-current assets							
Financial assets at fair value through profit or loss-noncurrent	4, 5, 6(2)	6,609,612	1	4,616,406	1	5,082,442	1
Financial assets at fair value through other comprehensive income-noncurrent	4, 5, 6(3)	24,326,947	6	-	-	-	-
Available-for-sale financial assets-noncurrent	4, 5, 6(4)	-	-	14,345,644	4	24,822,379	6
Financial assets measured at amortized cost-noncurrent	4, 5, 6(5), 8	358,907	-	-	-	-	-
Financial assets measured at cost-noncurrent	4, 5, 6(6)	-	-	12,635,302	3	9,430,486	2
Debt instrument investments for which no active market exists-noncurrent	4, 5, 6(7), 8	-	-	397,880	-	563,440	-
Investments accounted for using the equity method	6(12), 6(33)	14,474,919	3	5,777,104	2	5,961,930	2
Property, plant and equipment	6(13), 8	37,499,213	9	36,938,640	10	36,553,107	9
Investment property	6(14), 8	924,475	-	873,651	-	788,631	-
Intangible assets	6(15), 6(16)	74,805,239	17	76,029,080	19	77,803,435	20
Deferred tax assets	4, 5, 6(31)	4,654,283	1	3,898,877	1	3,624,222	1
Refundable deposits		276,569	-	319,734	-	316,203	-
Prepayments for investments		-	-	160,340	-	-	-
Net defined benefit assets-noncurrent	4, 6(21)	2,102	-	2,080	-	2,065	-
Long-term prepaid rent		153,827	-	154,951	-	153,304	-
Total non-current assets		164,086,093	37	156,149,689	40	165,101,644	41
Total assets		<u>\$ 442,253,681</u>	<u>100</u>	<u>\$ 394,814,185</u>	<u>100</u>	<u>\$ 403,311,699</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 June 30, 2018, December 31, 2017, and June 30, 2017

(June 30, 2018 and 2017 are unaudited)

(Amounts in thousands of New Taiwan Dollars)

LIABILITIES AND EQUITY	Notes	June 30, 2018	%	December 31, 2017	%	June 30, 2017	%
Current liabilities							
Short-term borrowings	6(17), 8	\$ 79,288,225	18	\$ 64,315,682	16	\$ 63,237,072	16
Financial liabilities at fair value through profit or loss-current	4, 5, 6(2)	14,897	-	18,144	-	10,678	-
Contract liabilities-current	4, 5, 6(24)	1,693,895	-	-	-	-	-
Trade payables		27,774,198	6	23,012,859	6	30,159,617	8
Trade payables to related parties	7	965,771	-	571,593	-	741,406	-
Other payables	6(18)	45,777,641	11	35,796,290	9	47,122,661	12
Other payables to related parties	7	21,708	-	-	-	-	-
Current tax liabilities	4, 5, 6(31)	3,282,320	1	1,980,597	1	2,762,330	1
Other current liabilities	4, 6(19)	16,854,418	4	1,525,368	-	1,691,284	-
Current portion of long-term liabilities	6(20), 8	1,429,724	-	36,850	-	50,660	-
Total current liabilities		177,102,797	40	127,257,383	32	145,775,708	37
Non-current liabilities							
Long-term borrowings	6(20), 8	317,767	-	336,192	-	368,426	-
Long-term payables		676,010	-	1,726,364	1	1,303,833	-
Net defined benefit liabilities-noncurrent	4, 6(21)	660,984	-	657,072	-	862,207	-
Deposits received		200,752	-	179,472	-	174,603	-
Deferred tax liabilities	4, 5, 6(31)	2,563,520	1	3,126,723	1	3,617,855	1
Non-current liabilities-others		847,619	-	331,966	-	360,374	-
Total non-current liabilities		5,266,652	1	6,357,789	2	6,687,298	1
Total liabilities		182,369,449	41	133,615,172	34	152,463,006	38
Equity attributable to owners of the parent							
Share capital	6(22)						
Common stock		15,792,691	4	15,814,140	4	15,816,034	4
Capital collected in advance		39	-	231	-	-	-
Capital surplus	6(22), 6(23), 6(34)	84,283,587	19	88,210,819	22	88,507,115	22
Retained earnings	6(22)						
Legal reserve		39,431,639	9	36,998,379	9	36,998,379	9
Undistributed earnings		97,494,457	22	100,629,197	26	86,371,619	21
Other equity	6(23)	21,559,200	5	18,214,847	5	19,686,671	5
Treasury shares	6(22)	(55,970)	-	(55,970)	-	(55,970)	-
Equity attributable to owners of the parent		258,505,643	59	259,811,643	66	247,323,848	61
Non-controlling interests	6(22), 6(34), 6(35)	1,378,589	-	1,387,370	-	3,524,845	1
Total equity		259,884,232	59	261,199,013	66	250,848,693	62
Total liabilities and equity		\$ 442,253,681	100	\$ 394,814,185	100	\$ 403,311,699	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 six months ended June 30, 2018 and 2017

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

Description	Notes	Three Months Ended June 30				Six Months Ended June 30			
		2018	%	2017	%	2018	%	2017	%
Net sales	4, 5, 6(24)	\$ 60,481,332	100	\$ 58,078,789	100	\$ 110,135,319	100	\$ 114,161,510	100
Operating costs	5, 6(10), 6(26), 7	(37,368,587)	(62)	(37,748,989)	(65)	(67,937,886)	(62)	(75,042,014)	(66)
Gross profit		23,112,745	38	20,329,800	35	42,197,433	38	39,119,496	34
Operating expenses	6(25), 6(26), 7								
Selling expenses		(2,813,518)	(5)	(2,715,041)	(5)	(5,085,201)	(5)	(5,083,350)	(4)
Administrative expenses		(1,814,193)	(3)	(1,632,058)	(3)	(3,490,261)	(3)	(3,352,497)	(3)
Research and development expenses		(14,271,951)	(23)	(13,624,471)	(23)	(27,588,441)	(25)	(27,113,441)	(24)
Expected credit losses		(120,751)	-	-	-	(11,757)	-	-	-
Total operating expenses		(19,020,413)	(31)	(17,971,570)	(31)	(36,175,660)	(33)	(35,549,288)	(31)
Operating income		4,092,332	7	2,358,230	4	6,021,773	5	3,570,208	3
Non-operating income and expenses									
Other income	4, 6(27), 7	1,191,478	2	1,007,912	2	2,081,542	2	1,595,443	2
Other gains and losses	4, 6(28)	3,931,350	6	207,724	-	4,208,359	4	6,042,058	5
Finance costs	6(29)	(440,717)	(1)	(216,019)	-	(847,902)	(1)	(375,868)	-
Share of profit of associates accounted for using the equity method	6(12)	(16,953)	-	22,218	-	406,229	1	49,338	-
Total non-operating income and expenses		4,665,158	7	1,021,835	2	5,848,228	6	7,310,971	7
Net income before income tax		8,757,490	14	3,380,065	6	11,870,001	11	10,881,179	10
Income tax expense	4, 5, 6(31)	(1,259,818)	(2)	(1,169,802)	(2)	(1,712,085)	(2)	(2,031,759)	(2)
Net income		7,497,672	12	2,210,263	4	10,157,916	9	8,849,420	8
Other comprehensive income	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 losses from equity instrument investments measured at fair value through other comprehensive income		(7,248,321)	(12)	-	-	(6,281,839)	(6)	-	-
Share of other comprehensive income of associates and joint ventures accounted for using the equity method		(673,308)	(1)	-	-	718,656	1	-	-
Income tax relating to those items not to be reclassified to profit or loss		730,239	1	-	-	591,236	1	-	-
Items that may be reclassified subsequently to profit or loss									
Exchange differences resulting from translating the financial statements of foreign operations		2,711,625	5	892,408	1	1,441,757	1	(4,046,696)	(4)
Unrealized gains from available-for-sale financial assets		-	-	7,570,739	13	-	-	12,353,305	11
Unrealized (losses) gains from debt instrument investments measured at fair value through other comprehensive income		(15,349)	-	-	-	7,814	-	-	-
Share of other comprehensive income of associates and joint ventures accounted for using the equity method		(3,624)	-	437	-	(9,383)	-	2,935	-
Income tax relating to those items to be reclassified to profit or loss		16	-	(755,443)	(1)	-	-	(1,304,859)	(1)
Other comprehensive income, net of tax		(4,498,722)	(7)	7,708,141	13	(3,531,811)	(3)	7,004,699	6
Total comprehensive income		\$ 2,998,950	5	\$ 9,918,404	17	\$ 6,626,105	6	\$ 15,854,119	14
Net income (loss) for the periods attributable to :									
Owners of the parent	6(32)	\$ 7,438,324		\$ 2,367,946		\$ 10,083,192		\$ 9,070,210	
Non-controlling interests	6(34)	59,348		(157,683)		74,724		(220,790)	
		\$ 7,497,672		\$ 2,210,263		\$ 10,157,916		\$ 8,849,420	
Total comprehensive income for the periods attributable to :									
Owners of the parent		\$ 2,941,757		\$ 10,039,678		\$ 6,546,145		\$ 16,083,554	
Non-controlling interests		57,193		(121,274)		79,960		(229,435)	
		\$ 2,998,950		\$ 9,918,404		\$ 6,626,105		\$ 15,854,119	
Basic Earnings Per Share (in New Taiwan Dollars)	6(32)	\$ 4.75		\$ 1.51		\$ 6.44		\$ 5.80	
Diluted Earnings Per Share (in New Taiwan Dollars)	6(32)	\$ 4.73		\$ 1.51		\$ 6.41		\$ 5.78	

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

Chairman : Ming-Kai Tsai

President : Lih-Shyng Tsai

Chief Financial Officer : David Ku

MEDIATEK INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the six months ended June 30, 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 assets measured at fair value through other comprehensive income	Unrealized gains (losses) from available-for-sale financial assets	Others				
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
Appropriation and distribution of 2016 earnings:													
Legal reserve	-	-	-	2,370,060	(2,370,060)	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(12,652,827)	-	-	-	-	-	(12,652,827)	-	(12,652,827)
Total	-	-	-	2,370,060	(15,022,887)	-	-	-	-	-	(12,652,827)	-	(12,652,827)
Cash dividends distributed from capital surplus	-	-	(2,372,405)	-	-	-	-	-	-	-	(2,372,405)	-	(2,372,405)
Profit for the six months ended June 30, 2017	-	-	-	-	9,070,210	-	-	-	-	-	9,070,210	(220,790)	8,849,420
Other comprehensive income for the six months ended June 30, 2017	-	-	-	-	14	(4,035,116)	-	11,048,446	-	-	7,013,344	(8,645)	7,004,699
Total comprehensive income	-	-	-	-	9,070,224	(4,035,116)	-	11,048,446	-	-	16,083,554	(229,435)	15,854,119
Share-based payment transactions	-	-	(18,341)	-	-	-	-	-	-	-	(18,341)	8,322	(10,019)
The differences between the fair value of the consideration paid or received from acquiring or disposing subsidiaries and the carrying amounts of the subsidiaries	-	-	80,843	-	-	-	-	-	-	-	80,843	-	80,843
Changes in ownership interests in subsidiaries	-	-	986,988	-	-	-	-	-	-	-	986,988	970,893	1,957,881
Issuance of restricted stock for employees	(5,088)	-	21,331	-	-	-	-	-	427,540	-	443,783	-	443,783
Changes in other capital surplus	-	-	(6,657)	-	-	-	-	-	-	-	(6,657)	10,619	3,962
Non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	880,478	880,478
Balance as of June 30, 2017	\$ 15,816,034	\$ -	\$ 88,507,115	\$ 36,998,379	\$ 86,371,619	\$ (1,839,221)	\$ -	\$ 22,574,380	\$ (1,048,488)	\$ (55,970)	\$ 247,323,848	\$ 3,524,845	\$ 250,848,693
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
Appropriation and distribution of 2017 earnings:													
Legal reserve	-	-	-	2,433,260	(2,433,260)	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(11,844,548)	-	-	-	-	-	(11,844,548)	-	(11,844,548)
Total	-	-	-	2,433,260	(14,277,808)	-	-	-	-	-	(11,844,548)	-	(11,844,548)
Cash dividends distributed from capital surplus	-	-	(3,948,182)	-	-	-	-	-	-	-	(3,948,182)	-	(3,948,182)
Profit for the six months ended June 30, 2018	-	-	-	-	10,083,192	-	-	-	-	-	10,083,192	74,724	10,157,916
Other comprehensive income for the six months ended June 30, 2018	-	-	-	-	(14,500)	1,427,138	(4,949,685)	-	-	-	(3,537,047)	5,236	(3,531,811)
Total comprehensive income	-	-	-	-	10,068,692	1,427,138	(4,949,685)	-	-	-	6,546,145	79,960	6,626,105
Share-based payment transactions	408	(192)	10,981	-	-	-	-	-	-	-	11,197	-	11,197
The differences between the fair value of the consideration paid or received from acquiring or disposing subsidiaries and the carrying amounts of the subsidiaries	-	-	-	-	(1,379,861)	-	-	-	-	-	(1,379,861)	(206,070)	(1,585,931)
Changes in ownership interests in subsidiaries	-	-	(4,326)	-	(28,936)	-	-	-	-	-	(33,262)	-	(33,262)
Issuance of restricted stock for employees	(21,857)	-	18,589	-	12,587	-	-	-	233,960	-	243,279	-	243,279
Changes in other capital surplus	-	-	(4,294)	-	-	-	-	-	-	-	(4,294)	-	(4,294)
Proceeds from disposal of equity instruments measured at fair value through other comprehensive income	-	-	-	-	121,500	-	(121,500)	-	-	-	-	-	-
Non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	117,329	117,329
Balance as of June 30, 2018	\$ 15,792,691	\$ 39	\$ 84,283,587	\$ 39,431,639	\$ 97,494,457	\$ (823,150)	\$ 22,746,205	\$ -	\$ (363,855)	\$ (55,970)	\$ 258,505,643	\$ 1,378,589	\$ 259,884,232

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 six months ended June 30, 2018 and 2017

(Amounts in thousands of New Taiwan Dollars)

Description	Six months ended June 30	
	2018	2017
Cash flows from operating activities :		
Profit before tax from continuing operations	\$ 11,870,001	\$ 10,881,179
Adjustments for:		
The profit or loss items which did not affect cash flows:		
Depreciation	1,874,840	1,709,025
Amortization	1,737,586	1,816,070
Expected credit losses (gains)	11,757	(131,319)
Gains on financial assets and liabilities at fair value through profit or loss	(518,771)	(65,925)
Interest expenses	847,902	375,868
Gains on derecognition of financial assets measured at amortized cost	(25,851)	-
Interest income	(1,814,454)	(1,170,876)
Dividend income	(109,512)	(323,097)
Share-based payment expenses	226,515	453,706
Share of profit of associates accounted for using the equity method	(406,229)	(49,338)
Losses on disposal of property, plant and equipment	3,132	2,455
Property, plant and equipment transferred to expenses	1,235	492
Gains on disposal of non-current assets held for sale	(3,460,483)	(5,123,575)
Losses on disposal of investments	5,446	25,226
Gains on disposal of investments accounted for using the equity method	-	(1,487,719)
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	2,609,049	1,318,415
Notes receivables	2,409	2,409
Trade receivables	(6,727,751)	137,920
Trade receivables from related parties	(1,598)	-
Other receivables	(482,824)	(595,970)
Inventories	(10,387,684)	(4,085,822)
Prepayments	(832,580)	(176,237)
Other current assets	691,343	(104,224)
Contract liabilities	264,540	-
Trade payables	8,154,957	(408,198)
Trade payables to related parties	394,178	(182,151)
Other payables	(2,765,665)	(3,612,909)
Other payables to related parties	21,708	-
Other current liabilities	5,394,411	(371,228)
Net defined benefit liabilities	3,838	6,647
Non-current liabilities-others	515,653	102,124
Cash generated from operating activities:		
Interest received	1,742,702	1,291,860
Dividend received	562,122	323,097
Interest paid	(815,212)	(367,034)
Income tax paid	(1,070,199)	(3,063,133)
Net cash provided by (used in) operating activities	<u>7,539,271</u>	<u>(2,339,069)</u>
Cash flows from investing activities :		
Acquisition of financial assets at fair value through other comprehensive income	(1,417,137)	-
Proceeds from disposal of financial assets at fair value through other comprehensive income	10,122,962	-
Proceeds from capital return of financial assets at fair value through other comprehensive income	9,206	-
Acquisition of financial assets measured at amortized cost	(7,037,112)	-
Proceeds from redemption of financial assets measured at amortized cost	7,156,010	-
Acquisition of available-for-sale financial assets	-	(1,840,391)
Proceeds from disposal of available-for-sale financial assets	-	2,640,076
Acquisition of debt instrument investments for which no active market exists	-	(1,601,396)
Proceeds from disposal of debt instrument investments for which no active market exists	-	1,401,878
Acquisition of financial assets measured at cost	-	(3,166,957)
Proceeds from capital return of financial assets measured at cost	-	27,136
Acquisition of investments accounted for using the equity method	(558,676)	(943,516)
Net cash outflows from acquisition of subsidiaries	-	(1,056,531)
Acquisition of property, plant and equipment	(2,494,663)	(2,036,918)
Proceeds from disposal of property, plant and equipment	3,922	3,906
Decrease in refundable deposits	43,165	16,005
Acquisition of intangible assets	(1,568,713)	(1,505,677)
Proceeds from disposal of intangible assets	-	136
Decrease in long-term lease receivables	-	211,898
Decrease (increase) in long-term prepaid rent	1,124	(18,578)
Net cash provided by (used in) investing activities	<u>4,260,088</u>	<u>(7,868,929)</u>
Cash flows from financing activities :		
Increase in short-term borrowings	14,609,468	10,082,382
Repayment of long-term borrowings	(18,425)	-
Increase (decrease) in deposits received	21,280	(2,909)
Proceeds from exercise of employee stock options	6,052	-
Cash dividends	150	-
Acquisition of ownership interests in subsidiaries	(1,585,931)	-
Disposal of ownership interests in subsidiaries (without losing control)	-	80,843
Change in non-controlling interests	117,329	1,963,225
Net cash provided by financing activities	<u>13,149,923</u>	<u>12,123,541</u>
Effect of changes in exchange rate on cash and cash equivalents	<u>1,085,005</u>	<u>(3,993,208)</u>
Net increase (decrease) in cash and cash equivalents	26,034,287	(2,077,665)
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	<u>\$ 171,372,663</u>	<u>\$ 138,483,193</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

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 July 31, 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 recognizes 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\$1,282,684 thousand and the contract liabilities increased by NT\$1,282,684 thousand as at June 30, 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\$411,211 thousand and the contract liabilities increased by NT\$411,211 thousand as at June 30, 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. (4) and Note 6. (24) 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 provisions of 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 provisions of 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	<u>\$ 246,039,245</u>	Total	<u>\$ 255,354,048</u>

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	Difference	Adjusted amounts	Adjusted amounts
Class of financial instruments		Class of financial instruments				
Loans and receivables (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	\$ 246,039,245	Total	\$ 255,354,048	\$ 9,314,803	\$ 2,560,363	\$ 6,754,440

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 follows:

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 in the amount 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 the 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. If those 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 in any difference in the carrying amount. In addition, 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) The cash flow characteristics for held-to-maturity investments and loans and receivables classified in accordance with IAS 39 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. In addition, 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 investments 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. (1), Note 6 and Note 12 for the related disclosures required by IFRS 7 and 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)**

- (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:

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

A. IFRS 16 “Leases”

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

B. IFRIC 23 “Uncertainty Over Income Tax Treatments”

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

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

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

The abovementioned standards and interpretations issued by IASB and have been recognized by FSC will become effective for annual periods beginning on or after January 1, 2019. Except for the standards and interpretations listed under A-C will have impact on the Company, the remaining standards and interpretations have no material impact on 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)

- (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 17	“Insurance Contracts”	January 1, 2021

- A. IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” - Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures (Amendment)

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

The abovementioned standards and interpretations issued by IASB have not yet been recognized by FSC at the date of issuance of the Company's financial statements, the local effective dates are to be determined by FSC. As the Company is currently determining the potential impact of the standards and interpretations listed under A, it is not practicable to estimate the impact on the Company at this point in time. All other standards and interpretations have no material impact on the Company.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

4. Summary of Significant Accounting Policies

Statement of Compliance

The consolidated financial statements of the Company for the six month periods ended June 30, 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.

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.

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

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

If loses control of a subsidiary, it:

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

The consolidated entities are listed as follows:

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			June 30, 2018	December 31, 2017	June 30, 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	MStar Semiconductor Inc.	Research, manufacturing and sales	100%	100%	100%	-
MTK	Hsu-Chuang Communication Corp.	Research	100%	100%	100%	1
MTK	HFI Innovation Inc.	Intellectual property right management	100%	100%	100%	-
MTK	Airoha Technology Corp.	Research, manufacturing and sales	7%	7%	-	2
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
			June 30, 2018	December 31, 2017	June 30, 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%	2
MediaTek Capital Corp.	RollTech Technology Co., Ltd.	Software development	67%	67%	67%	-
MediaTek Capital Corp.	E-Vehicle Semiconductor Technology Co., Ltd.	Research, manufacturing and sales	47%	47%	47%	-
MediaTek Capital Corp.	Chingis Technology Corp.	Research	100%	100%	100%	-
MediaTek Capital Corp.	Velocenet Inc.	Research	100%	100%	100%	-
MediaTek Capital Corp.	Nephos (Taiwan) Inc.	Research	100%	100%	100%	-
MediaTek Capital Corp.	Airoha Technology Corp.	Research, manufacturing and sales	-	-	17%	2
Core Tech Resources Inc.	MediaTek India Technology Pvt. Ltd.	Research	0%	0%	0%	-
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%	2
Hsu-Si Investment Corp.	Airoha (Cayman) Inc.	General investing	100%	100%	100%	-
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
			June 30, 2018	December 31, 2017	June 30, 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%	-	3
Airoha (Cayman) Inc.	Airotek (Chengdu) Inc.	Research	100%	100%	-	3
Airoha Technology Corp.	Airoha Technology (Samoa) Corp.	General investing	100%	100%	100%	2
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
			June 30, 2018	December 31, 2017	June 30, 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%	4
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%	78%	-
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%	-	5
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
			June 30, 2018	December 31, 2017	June 30, 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 Wireless Finland Oy	Research	100%	100%	100%	-
Gold Rich International (Samoa) Limited	Gold Rich International (HK) Limited	General investing	100%	100%	100%	-
Digital Lord Limited	Lepower (HK) Limited	General investing	100%	100%	100%	-
Lepower (HK) Limited	Nephos (Beijing) Co., Ltd.	Research, manufacturing and sales	100%	100%	100%	6
E-Vehicle Semiconductor Technology Co., Ltd.	E-Vehicle Holdings Corp.	General investing	100%	100%	100%	-
E-Vehicle Holdings Corp.	E-Vehicle Investment Limited	General investing	100%	100%	100%	-
E-Vehicle Investment Limited	E-Vehicle Semiconductor (Shanghai) Co., Ltd.	Research, manufacturing and sales	100%	100%	100%	-
EcoNet (Cayman) Inc.	Shadow Investment Limited	General investing	100%	100%	100%	-
EcoNet (Cayman) Inc.	EcoNet (HK) Limited	Research and sales	100%	100%	100%	-
EcoNet (Cayman) Inc.	EcoNet Limited	General investing	-	-	100%	7

(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
			June 30, 2018	December 31, 2017	June 30, 2017	
EcoNet (HK) Limited	EcoNet (Suzhou) Limited	Research, manufacturing and sales	100%	100%	100%	-
EcoNet (Suzhou) Limited	EcoNet Limited	General investing	100%	100%	-	7
Shadow Investment Limited	MediaTek (Suzhou) Inc.	Research	-	-	100%	8
Shadow Investment Limited	MediaTek (Nanjing) Inc.	Research	-	100%	100%	9
MediaTek Investment Singapore Pte. Ltd.	Lightup International Corp.	General investing	-	-	100%	10
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%	-
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%	11

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			June 30, 2018	December 31, 2017	June 30, 2017	
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%	-	12
MStar Semiconductor, Inc.	Sigmastar Technology Inc.	General investing	100%	100%	-	13
Sigmastar Technology Inc.	Xiamen Sigmastar Technology Inc.	Customer development	100%	100%	-	14
Xiamen Sigmastar Technology Inc.	Shenzhen Sing Chen Technology Inc.	Customer development	100%	-	-	15
Xiamen Sigmastar Technology Inc.	SigmaStar Technology Inc. (Shanghai)	Customer development	100%	-	-	16
AIT Holding Ltd.	AIT Management Ltd.	General investing	-	-	100%	11
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%	-
IStar Technology Ltd.	ShenZhen ZhongChen Semiconductor Ltd.	Customer development	100%	-	-	17
ILI Technology Corporation	ILITEK Holding Inc.	General investing	100%	100%	100%	-
ILITEK Holding Inc.	ILI Technology(SZ) LTD.	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
			June 30, 2018	December 31, 2017	June 30, 2017	
MediaTek (Shenzhen) Inc.	Shanghai ShanShengChuangXin Investment Partnership (Limited Partnership)	General investing	-	-	2%	18
MediaTek (Shanghai) Inc.	Shanghai ShanShengChuangXin Investment Partnership (Limited Partnership)	General investing	-	-	2%	18
Nephos Cayman Co. Limited	Nephos (Hefei) Co. Ltd.	Research, manufacturing and sales	83%	63%	63%	-

- Hsu-Chuang Investment Corp. was renamed Hsu-Chuang Communication Corp. in February 2018.
- 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.
- Airoha (Cayman) Inc. established Airotek (Shenzhen) Inc. and Airotek (Chengdu) Inc. in September 2017.
- For the purpose of reorganization, Hesine Technologies International Worldwide Inc. has been liquidated in November 2017.
- Gaintech Co. Limited established Zelus Technology (HangZhou) Ltd. in October 2017.
- Lepower Technologies (Beijing) Inc. was renamed Nephos (Beijing) Co., Ltd. in June 2018.
- 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.
- For the purpose of reorganization, MediaTek (Suzhou) Inc. has been liquidated and returned its capital in August 2017.
- For the purpose of reorganization, MediaTek (Nanjing) Inc. has been liquidated and returned its capital in February 2018.
- 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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

11. For the purpose of reorganization, AIT Holding Ltd. and AIT Management Ltd. have been liquidated and returned their capital in July 2017.
12. MStar Semiconductor, Inc. established Sigmaster Technology Corp. in September 2017.
13. MStar Semiconductor, Inc. established Sigmaster Technology Inc. in October 2017.
14. Sigmaster Technology Inc. established Xiamen Sigmaster Technology Inc. in December 2017.
15. Xiamen Sigmaster Technology Inc. established Shenzhen Sing Chen Technology Inc. in January 2018.
16. Xiamen Sigmaster Technology Inc. established SigmaStar Technology Inc. (Shanghai) in April 2018.
17. IStar Technology Ltd. established ShenZhen ZhongChen Semiconductor Ltd. in June 2018.
18. 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, the same accounting policies have been followed in the consolidated financial statements for the six months ended June 30, 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.

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:

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- 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.
- (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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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.

Besides, at initial recognition, the Company makes 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 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 and trade receivables.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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).

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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

b. Available-for-sale financial assets

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

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

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

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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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.

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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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.

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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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.

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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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.

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.

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 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.

E. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is 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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Inventories

Inventory costs include 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.

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:

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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.

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 have a right to an amount of consideration that is unconditional, these contracts 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 are 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 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.

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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

B. Interest income

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

C. Dividends

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

Post-employment benefits

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 six months ended June 30, 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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- 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:

Estimates and assumptions

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

A. Fair value of financial instruments

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

B. Valuation of inventory

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

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

C. Income tax

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

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

D. Revenue recognition - sales returns and discounts

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 recognized will not occur. Please refer to Note 6. (19) 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.

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****6. Contents of Significant Accounts****(1) Cash and cash equivalents**

	June 30, 2018	December 31, 2017	June 30, 2017
Cash on hand and petty cash	\$ 5,804	\$ 5,845	\$ 7,403
Checking and savings accounts	17,096,738	17,814,718	15,651,485
Time deposits	154,270,121	127,397,008	122,701,914
Cash equivalents - repurchase agreements	-	120,805	122,391
Total	<u>\$ 171,372,663</u>	<u>\$ 145,338,376</u>	<u>\$ 138,483,193</u>

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

Cash and cash equivalents were not pledged.

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

	June 30, 2018	December 31, 2017(Note)	June 30, 2017(Note)
<u>Current</u>			
<u>Financial assets mandatorily</u>			
<u>measured at fair value through</u>			
<u>profit or loss</u>			
Funds	\$ 2,309,231		
Credit-linked deposits	1,089,838		
Bonds	456,475		
Interest rate-linked deposits	259,354		
Forward exchange contracts	459		
Total	<u>\$ 4,115,357</u>		
<u>Held for trading financial liabilities</u>			
Forward exchange contracts	<u>\$ 14,897</u>		

(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)

	June 30, 2018	December 31, 2017(Note)	June 30, 2017(Note)
<u>Noncurrent</u>			
<u>Financial assets mandatorily</u>			
<u>measured at fair value through</u>			
<u>profit or loss</u>			
Funds	\$ 2,593,713		
Credit-linked deposits	2,375,102		
Bonds	970,666		
Interest rate-linked deposits	526,628		
Stocks	143,503		
Total	<u>\$ 6,609,612</u>		
	June 30, 2018(Note)	December 31, 2017	June 30, 2017
<u>Current</u>			
<u>Held for trading financial assets</u>			
Forward exchange contracts		\$ 27	\$ 210
<u>Financial assets designated upon</u>			
<u>initial recognition at fair value</u>			
<u>through profit or loss</u>			
Interest rate-linked deposits		269,987	-
Credit-linked deposits		229,150	-
Bonds		225,343	-
Index-linked deposits		-	265,103
Subtotal		724,480	265,103
Total		<u>\$ 724,507</u>	<u>\$ 265,313</u>
<u>Held for trading financial liabilities</u>			
Forward exchange contracts		\$ 18,144	\$ 10,678

(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)

	June 30, 2018(Note)	December 31, 2017	June 30, 2017
<u>Noncurrent</u>			
<u>Financial assets designated upon</u>			
<u>initial recognition at fair value</u>			
<u>through profit or loss</u>			
Credit-linked deposits		\$ 3,202,920	\$ 3,450,737
Bonds		908,734	1,104,242
Interest rate-linked deposits		504,752	527,463
Index-linked deposits		-	-
Total		<u>\$ 4,616,406</u>	<u>\$ 5,082,442</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.

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

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

	June 30, 2018	December 31, 2017(Note)	June 30, 2017(Note)
<u>Current</u>			
<u>Debt instrument investments</u>			
<u>measured at fair value through</u>			
<u>other comprehensive income</u>			
Bonds	<u>\$ 3,005,966</u>		
<u>Equity instrument investments</u>			
<u>measured at fair value through</u>			
<u>other comprehensive income</u>			
Listed companies stocks	11,614,970		
Unlisted companies stocks	<u>140,801</u>		
Subtotal	<u>11,755,771</u>		
Total	<u>\$ 14,761,737</u>		

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

	June 30, 2018	December 31, 2017(Note)	June 30, 2017(Note)
<u>Noncurrent</u>			
<u>Debt instrument investments</u>			
<u>measured at fair value through</u>			
<u>other comprehensive income</u>			
Bonds	\$ 1,044,775		
<u>Equity instrument investments</u>			
<u>measured at fair value through</u>			
<u>other comprehensive income</u>			
Capital	10,753,663		
Listed companies stocks	8,246,118		
Unlisted companies stocks	4,282,391		
Subtotal	23,282,172		
Total	\$ 24,326,947		

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 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\$109,512 thousand for the six-months ended June 30, 2018, all of which related to investments held at 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)**

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\$227,799 thousand. The Company transferred the cumulative disposal gain of NT\$121,500 thousand from other components of equity to retained earnings.

(4) Available-for-sale financial assets

	June 30, 2018(Note)	December 31, 2017	June 30, 2017
<u>Current</u>			
Stocks		\$ 15,899,578	\$ 9,078,393
Bonds		5,695,430	3,942,018
Funds		1,696,820	1,848,686
Subtotal		23,291,828	14,869,097
<u>Noncurrent</u>			
Stocks		9,946,693	18,864,519
Funds		2,409,272	2,623,980
Bonds		1,989,679	3,333,880
Subtotal		14,345,644	24,822,379
Total		\$ 37,637,472	\$ 39,691,476

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 six months ended June 30, 2017.

Available-for-sale financial assets 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)****(5) Financial assets measured at amortized cost**

	June 30, 2018	December 31, 2017(Note)	June 30, 2017(Note)
<u>Current</u>			
Bonds	\$ 1,704,038		
Time deposits	37,683		
Less: loss allowance	-		
Subtotal	1,741,721		
<u>Noncurrent</u>			
Bonds	290,000		
Time deposits	68,907		
Less: loss allowance	-		
Subtotal	358,907		
Total	\$ 2,100,628		

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.

(6) Financial assets measured at cost

	June 30, 2018(Note)	December 31, 2017	June 30, 2017
<u>Available-for-sale financial assets-</u>			
<u>noncurrent</u>			
Capital		\$ 7,651,545	\$ 7,107,682
Unlisted companies stocks		4,983,757	2,322,804
Total		\$ 12,635,302	\$ 9,430,486

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. 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 six months ended June 30, 2017.

Financial assets measured at cost were not pledged.

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

	June 30, 2018(Note)	December 31, 2017	June 30, 2017
<u>Current</u>			
Bonds		\$ 746,200	\$ 1,308,748
Time deposits		19,245	18,885
Subtotal		<u>765,445</u>	<u>1,327,633</u>
<u>Noncurrent</u>			
Bonds		290,000	290,000
Time deposits		107,880	273,440
Subtotal		<u>397,880</u>	<u>563,440</u>
Total		<u><u>\$ 1,163,325</u></u>	<u><u>\$ 1,891,073</u></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 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.

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(8) Trade receivables and trade receivables from related parties**

	June 30, 2018	December 31, 2017	June 30, 2017
Trade receivables	\$ 32,300,394	\$ 25,424,012	\$ 29,502,703
Less: allowance for doubtful debts	(346,133)	(331,984)	(159,467)
Less: allowance for sales returns and discounts	-	(8,199,443)	(8,762,226)
Subtotal	31,954,261	16,892,585	20,581,010
Trade receivables from related parties	1,598	-	-
Less: allowance for doubtful debts	-	-	-
Subtotal	1,598	-	-
Total	<u>\$ 31,955,859</u>	<u>\$ 16,892,585</u>	<u>\$ 20,581,010</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	-	(131,319)	(131,319)
Exchange differences	-	(3,915)	(3,915)
As of June 30, 2017	<u>\$ -</u>	<u>\$ 159,467</u>	<u>\$ 159,467</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
June 30, 2017	\$ 20,192,005	\$ 384,288	\$ 4,717	\$ 20,581,010

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 June 30, 2018, trade receivables classified as financial assets measured at fair value through profit or loss due to regular factoring is NT\$3,699,883 thousand.

(9) Other receivables

	June 30, 2018	December 31, 2017	June 30, 2017
Factoring receivables	\$ 2,352,008	\$ 2,515,843	\$ 2,253,565
Others	11,032,428	18,735,514	16,452,096
Total	<u>\$ 13,384,436</u>	<u>\$ 21,251,357</u>	<u>\$ 18,705,661</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\$2,352,008 thousand, NT\$2,515,843 thousand and NT\$2,253,565 thousand as of June 30, 2018, December 31, 2017, and June 30, 2017, respectively.

As of June 30, 2018, December 31, 2017, and June 30, 2017, trade receivables derecognized were as follows:

A. As of June 30, 2018:

The Factor (Transferee)	Interest rate	Trade receivables derecognized (US\$'000)	Cash withdrawn (US\$'000)	Unutilized (US\$'000)	Credit line (US\$'000)
Taishin International Bank	-	\$ 52,490	\$ -	\$ 52,490	\$ 88,000
BNP Paribas	-	24,394	-	24,394	107,000
HSBC	-	231	-	231	350
SMBC	-	-	-	-	10,000
Total		<u>\$ 77,115</u>	<u>\$ -</u>	<u>\$ 77,115</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		\$ 84,289	\$ -	\$ 84,289	\$ 221,350

C. As of June 30, 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	-	\$ 51,857	\$ -	\$ 51,857	\$ 79,014
BNP Paribas	-	16,728	-	16,728	69,000
HSBC	-	96	-	96	500
TC Bank	-	44	-	44	-
ING Bank	-	4,971	-	4,971	50,000
Taipei Fubon Commercial Bank	-	347	-	347	10,000
Total		\$ 74,043	\$ -	\$ 74,043	\$ 208,514

(10) Inventories

	June 30, 2018	December 31, 2017	June 30, 2017
Raw materials	\$ 4,668,181	\$ 2,601,306	\$ 3,775,375
Work in progress	18,044,814	11,839,039	20,829,907
Finished goods	14,161,934	12,099,269	15,011,746
Net amount	\$ 36,874,929	\$ 26,539,614	\$ 39,617,028

For the three months ended June 30, 2018 and 2017, the cost of inventories recognized in expenses amounted to NT\$37,368,587 thousand and NT\$37,748,989 thousand, including the write-down of inventories of NT\$365,575 thousand and NT\$2,020,725 thousand for the three months ended June 30, 2018 and 2017, respectively.

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 six months ended June 30, 2018 and 2017, the cost of inventories recognized in expenses amounted to NT\$67,937,886 thousand and NT\$75,042,014 thousand, including the write-down of inventories of NT\$503,389 thousand and NT\$4,624,009 thousand for the six months ended June 30, 2018 and 2017, respectively.

Inventories were not pledged.

(11) Prepayments

	June 30, 2018	December 31, 2017	June 30, 2017
Prepaid expenses	\$ 1,084,805	\$ 534,954	\$ 656,523
Input tax	457,408	235,532	364,128
Others	680,799	619,946	687,564
Total	<u>\$ 2,223,012</u>	<u>\$ 1,390,432</u>	<u>\$ 1,708,215</u>

(12) Investments accounted for using the equity method

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

Investees	June 30, 2018		December 31, 2017		June 30, 2017	
	Carrying amount	Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)
Investments in associates:						
MOUNTAIN CAPITAL FUND, L.P.	\$ 1,511,046	42	\$ 810,527	42	\$ 826,549	42
FONTAINE CAPITAL FUND, L.P.	1,267,276	57	569,146	57	588,012	57
Others	1,024,190	-	530,159	-	574,996	-
Subtotal	<u>3,802,512</u>		<u>1,909,832</u>		<u>1,989,557</u>	

(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)

	June 30, 2018		December 31, 2017		June 30, 2017	
	Carrying	Percentage	Carrying	Percentage	Carrying	Percentage
Investees	amount	of ownership (%)	amount	of ownership (%)	amount	of ownership (%)
Investments in jointly controlled entities:						
Yuan Ke (Pingtan)						
Investment Fund						
Limited Partnership	10,672,407	81	3,867,272	81	3,972,373	81
Subtotal	10,672,407		3,867,272		3,972,373	
Total	\$ 14,474,919		\$ 5,777,104		\$ 5,961,930	

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.

Although partial of the Company's ownership in the aforementioned investees were higher than 50%, those investees were Limited Partnership and the Company served as a Limited Partner which had no ability to direct the relevant activities of them. Therefore, the Company had no control over them and therefore they were not included in the consolidated entities.

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

(1) Investments in associates

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Profit from continuing operations	\$ 11,432	\$ 12,314	\$ 655	\$ 14,480
Other comprehensive income (post-tax)	(7,747)	565	3,373	3,420
Total comprehensive income	\$ 3,685	\$ 12,879	\$ 4,028	\$ 17,900

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(2) Investments in jointly controlled entities

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
(Loss) profit from				
continuing operations	\$ (43,963)	\$ (197)	\$ (31,131)	\$ 30,814
Other comprehensive				
income (post-tax)	-	-	-	-
Total comprehensive				
income	<u>\$ (43,963)</u>	<u>\$ (197)</u>	<u>\$ (31,131)</u>	<u>\$ 30,814</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 June 30, 2018, December 31, 2017, and June 30, 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	examination	Total
Cost:								
As of January 1, 2018	\$ 5,196,705	\$27,212,618	\$ 1,425,053	\$ 5,689,417	\$ 7,602,174	\$ 2,305,629	\$ 846,426	\$ 50,278,022
Additions-acquired separately	-	686,559	23,169	200,304	607,578	197,559	729,107	2,444,276
Disposals	-	(1,743)	(3,722)	(110,449)	(29,942)	(235,872)	-	(381,728)
Transfers	290,240	319,666	10,088	3,073	3,313	22,736	(712,258)	(63,142)
Exchange differences	-	55,756	(3,988)	4,274	6,835	(1,057)	130	61,950
As of June 30, 2018	<u>\$ 5,486,945</u>	<u>\$28,272,856</u>	<u>\$ 1,450,600</u>	<u>\$ 5,786,619</u>	<u>\$ 8,189,958</u>	<u>\$ 2,288,995</u>	<u>\$ 863,405</u>	<u>\$ 52,339,378</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	86,980	462,628	51,917	410,244	568,764	270,756	196,201	2,047,490
Additions-acquired through business combinations	-	-	98,294	-	-	16,905	-	115,199
Disposals	-	(2,791)	(166)	(179,511)	(140,156)	(118,412)	(180)	(441,216)
Transfers	1,088	(159,572)	13,269	(1,330)	9,084	49,623	(146,157)	(233,995)
Exchange differences	(2)	(291,644)	(2,170)	(76,943)	(69,992)	(45,709)	(188,747)	(675,207)
As of June 30, 2017	<u>\$ 5,196,705</u>	<u>\$21,291,326</u>	<u>\$ 1,371,623</u>	<u>\$ 5,153,087</u>	<u>\$ 7,229,089</u>	<u>\$ 2,457,994</u>	<u>\$ 5,897,393</u>	<u>\$ 48,597,217</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	-	405,674	137,646	527,810	528,906	264,799	-	1,864,835
Disposals	-	(1,659)	(3,633)	(107,710)	(25,027)	(235,410)	-	(373,439)
Transfers	-	(4,528)	-	-	-	(261)	-	(4,789)
Exchange differences	-	(638)	486	4,748	5,289	4,291	-	14,176
As of June 30, 2018	\$ -	\$ 3,942,398	\$ 670,241	\$ 3,832,613	\$ 5,005,437	\$ 1,389,476	\$ -	\$ 14,840,165
As of January 1, 2017	\$ -	\$ 2,903,910	\$ 271,703	\$ 2,772,783	\$ 3,700,970	\$ 1,277,840	\$ -	\$ 10,927,206
Depreciation	-	299,447	128,018	467,805	508,334	298,512	-	1,702,116
Disposals	-	(2,247)	(166)	(175,309)	(139,382)	(117,259)	-	(434,363)
Transfers	-	(8,554)	-	-	-	-	-	(8,554)
Exchange differences	-	(11,151)	(1,212)	(50,303)	(42,799)	(36,830)	-	(142,295)
As of June 30, 2017	\$ -	\$ 3,181,405	\$ 398,343	\$ 3,014,976	\$ 4,027,123	\$ 1,422,263	\$ -	\$ 12,044,110
Net carrying amount as of:								
June 30, 2018	\$ 5,486,945	\$ 24,330,458	\$ 780,359	\$ 1,954,006	\$ 3,184,521	\$ 899,519	\$ 863,405	\$ 37,499,213
December 31, 2017	\$ 5,196,705	\$ 23,669,069	\$ 889,311	\$ 2,281,652	\$ 3,105,905	\$ 949,572	\$ 846,426	\$ 36,938,640
June 30, 2017	\$ 5,196,705	\$ 18,109,921	\$ 973,280	\$ 2,138,111	\$ 3,201,966	\$ 1,035,731	\$ 5,897,393	\$ 36,553,107

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
Transfers	-	63,398	63,398
Exchange differences	-	2,400	2,400
As of June 30, 2018	<u>\$ 201,536</u>	<u>\$ 805,072</u>	<u>\$ 1,006,608</u>
As of January 1, 2017	\$ 199,661	\$ 490,073	\$ 689,734
Transfers	1,875	164,518	166,393
Exchange differences	-	(14,931)	(14,931)
As of June 30, 2017	<u>\$ 201,536</u>	<u>\$ 639,660</u>	<u>\$ 841,196</u>
Depreciation and impairment:			
As of January 1, 2018	\$ -	\$ 67,159	\$ 67,159
Depreciation	-	10,005	10,005
Transfers	-	4,789	4,789
Exchange differences	-	180	180
As of June 30, 2018	<u>\$ -</u>	<u>\$ 82,133</u>	<u>\$ 82,133</u>
As of January 1, 2017	\$ -	\$ 38,326	\$ 38,326
Depreciation	-	6,909	6,909
Transfers	-	8,554	8,554
Exchange differences	-	(1,224)	(1,224)
As of June 30, 2017	<u>\$ -</u>	<u>\$ 52,565</u>	<u>\$ 52,565</u>
Net carrying amount as of:			
June 30, 2018	<u>\$ 201,536</u>	<u>\$ 722,939</u>	<u>\$ 924,475</u>
December 31, 2017	<u>\$ 201,536</u>	<u>\$ 672,115</u>	<u>\$ 873,651</u>
June 30, 2017	<u>\$ 201,536</u>	<u>\$ 587,095</u>	<u>\$ 788,631</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 June 30		Six months ended June 30	
	2018	2017	2018	2017
Rental income from				
investment properties	\$ 24,455	\$ 6,267	\$ 46,539	\$ 18,046
Less:				
Direct operating				
expenses from				
investment properties				
generating rental				
income	(5,241)	(3,822)	(10,005)	(6,909)
Total	\$ 19,214	\$ 2,445	\$ 36,534	\$ 11,137

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:	June 30, 2018	December 31, 2017	June 30, 2017
Fair value	\$ 1,269,658	\$ 1,136,818	\$ 974,734
Based on comparative approach and income approach:	June 30, 2018	December 31, 2017	June 30, 2017
Fair value	\$ 262,578	\$ 262,578	\$ 254,334
Income capitalization rate	0.89%-2.64%	0.89%-2.64%	1.23%-2.67%

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 six months ended June 30, 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	-	445,036	-	31,557	-	476,593
Disposals	-	(8,095)	-	-	-	(8,095)
Transfers	-	(256)	-	-	-	(256)
Exchange differences	-	182	-	29,045	11,645	40,872
As of June 30, 2018	<u>\$ 772,487</u>	<u>\$ 3,414,000</u>	<u>\$ 5,114,146</u>	<u>\$ 9,703,517</u>	<u>\$ 65,458,570</u>	<u>\$ 84,462,720</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	-	711,485	-	3,401,859	-	4,113,344
Additions-acquired through business combinations	-	53,515	668,800	1,031,613	1,792,456	3,546,384
Disposals	-	(2,075)	-	(3,588,179)	-	(3,590,254)
Transfers	-	3,472	-	-	64,130	67,602
Exchange differences	-	(478)	-	(152,059)	(33,411)	(185,948)
As of June 30, 2017	<u>\$ 772,487</u>	<u>\$ 2,781,453</u>	<u>\$ 5,782,946</u>	<u>\$ 9,409,466</u>	<u>\$ 65,209,980</u>	<u>\$ 83,956,332</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	56,300	320,088	283,103	1,078,095	-	1,737,586
Disposals	-	(8,095)	-	-	-	(8,095)
Exchange differences	-	3	-	3,461	-	3,464
As of June 30, 2018	<u>\$ 448,494</u>	<u>\$ 2,356,964</u>	<u>\$ 2,401,370</u>	<u>\$ 4,450,653</u>	<u>\$ -</u>	<u>\$ 9,657,481</u>
As of January 1, 2017	\$ 279,595	\$ 1,549,914	\$ 1,441,288	\$ 4,719,853	\$ -	\$ 7,990,650
Amortization	56,300	227,806	342,201	1,189,763	-	1,816,070
Disposals	-	(1,939)	-	(3,588,179)	-	(3,590,118)
Exchange differences	-	2,848	-	(66,553)	-	(63,705)
As of June 30, 2017	<u>\$ 335,895</u>	<u>\$ 1,778,629</u>	<u>\$ 1,783,489</u>	<u>\$ 2,254,884</u>	<u>\$ -</u>	<u>\$ 6,152,897</u>
Net carrying amount as of:						
June 30, 2018	<u>\$ 323,993</u>	<u>\$ 1,057,036</u>	<u>\$ 2,712,776</u>	<u>\$ 5,252,864</u>	<u>\$ 65,458,570</u>	<u>\$ 74,805,239</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>
June 30, 2017	<u>\$ 436,592</u>	<u>\$ 1,002,824</u>	<u>\$ 3,999,457</u>	<u>\$ 7,154,582</u>	<u>\$ 65,209,980</u>	<u>\$ 77,803,435</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

	June 30, 2018	December 31, 2017	June 30, 2017
Unsecured bank loans	\$ 79,288,225	\$ 64,315,682	\$ 63,237,072
Interest rates	0.56~2.92%	1.66~5%	1.32~1.94%

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

(18) Other payables

	June 30, 2018	December 31, 2017	June 30, 2017
Accrued salaries and bonuses	\$ 16,162,044	\$ 18,688,236	\$ 17,610,680
Dividend payables	15,792,730	-	15,070,749
Accrued royalties	2,214,189	1,836,863	1,899,695
Others	11,608,678	15,271,191	12,541,537
Total	\$ 45,777,641	\$ 35,796,290	\$ 47,122,661

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**

	June 30, 2018	December 31, 2017	June 30, 2017
Sales returns and allowance (Note)	\$ 16,472,071	\$ -	\$ -
Advance sales receipts	-	1,189,268	1,345,185
Others	382,347	336,100	346,099
Total	<u>\$ 16,854,418</u>	<u>\$ 1,525,368</u>	<u>\$ 1,691,284</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 June 30, 2018 are as follows:

Lenders	As of June 30, 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	257,950	1.40%	Effective from October 30, 2017, principle is repaid in 16 semi-annually payments with monthly interest payments.
Total	<u>354,617</u>		
Less: current portion	<u>(36,850)</u>		
Noncurrent portion	<u>\$ 317,767</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 June 30, 2017 are as follows:

Lenders	As of		Maturity date and terms of repayment
	June 30, 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	(50,660)		
Noncurrent portion	<u>\$ 368,426</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 June 30, 2018 and 2017 were NT\$419,687 thousand and NT\$381,251 thousand, respectively. Pension expenses under the defined contribution plan for the six months ended June 30, 2018 and 2017 were NT\$864,914 thousand and NT\$795,677 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 June 30, 2018 and 2017 were NT\$4,672 thousand and NT\$6,087 thousand, respectively. Pension expenses under the defined benefits plan for the six months ended June 30, 2018 and 2017 were NT\$9,386 thousand and NT\$12,368 thousand, respectively.

(22) Equity

A. Share capital

MTK's authorized capital as of June 30, 2018, December 31, 2017, and June 30, 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\$15,792,691 thousand, NT\$15,814,140 thousand, and NT\$15,816,034 thousand, divided into 1,579,269,032 shares, 1,581,413,973 shares, and 1,581,603,381 shares as of June 30, 2018, December 31, 2017, and June 30, 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 has redeemed and cancelled 2,185,716 shares and 508,810 shares of issued restricted stocks for employees during the six months ended June 30, 2018 and 2017, respectively. Relevant regulators' approvals have been obtained and related registration processes have been completed.

MTK issued 21,590 new shares for the six months ended June 30, 2018, at par value of NT\$10 for exercising employee stock options. The aforementioned new issued shares (NT\$39 thousand in the amount) were not yet registered and therefore were classified as capital collected in advance as of June 30, 2018.

B. Capital surplus

	June 30, 2018	December 31, 2017	June 30, 2017
Additional paid-in capital	\$ 79,832,675	\$ 83,765,699	\$ 83,495,128
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	-	-	80,843
Changes in ownership interests in subsidiaries	1,146,807	1,146,807	1,163,882
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	495,068
Restricted stocks for employees	1,144,042	1,129,630	1,681,395
Others	130,578	134,872	128,659
Total	<u>\$ 84,283,587</u>	<u>\$ 88,210,819</u>	<u>\$ 88,507,115</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 June 30, 2018, December 31, 2017, and June 30, 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 June 30, 2018, December 31, 2017, and June 30, 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.

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

	Six months ended June 30	
	2018	2017
Beginning balance	\$ 1,387,370	\$ 1,883,968
Gains (losses) attributable to non-controlling interests	74,724	(220,790)
Other comprehensive income (losses), attributable to non-controlling interests, net of tax:		
Exchange differences resulting from translating the financial statements of foreign operations	5,236	(8,645)
Share-based payment transactions	-	8,322
Changes in ownership interests in subsidiaries	-	970,893
Acquisition through business combinations	-	1,424,763
Acquisition of additional interest in a subsidiary	(206,070)	-
Others	117,329	(533,666)
Ending balance	\$ 1,378,589	\$ 3,524,845

(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 June 30, 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	-	-	\$ 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	616,885	616,885	402.0
2010.11.04	65,839	8,134	8,134	374.4
2011.08.24	2,109,871	1,027,553	1,027,553	275.5
2012.08.14	1,346,795	815,817	815,817	284.8
2013.08.22	1,436,343	1,044,117	1,044,117	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	Six months ended June 30			
	2018		2017	
	Options	Weighted-average Exercise Price	Options	Weighted-average Exercise Price
	(Unit)	per Share (NT\$)	(Unit)	per Share (NT\$)
Outstanding at beginning of period	4,681,103	\$ 340.4	4,923,268	\$ 339.9
Granted	-	-	-	-
Exercised (Note)	(21,590)	280.3	-	-
Forfeited (Expired)	(257,165)	355.0	(32,943)	347.8
Outstanding at end of period	<u>4,402,348</u>	339.9	<u>4,890,325</u>	339.8
Exercisable at end of period	<u>4,402,348</u>		<u>4,462,414</u>	
Weighted-average fair value of options granted during the period (in NT\$)	\$ -		\$ -	

Note: The weighted average share price at the date of exercise of those options were NT\$329.1 for the six months ended June 30, 2018.

The information on the outstanding share-based payment plan as of June 30, 2018 and 2017 is as follows:

Date of grant	Range of Exercise Price (NT\$)	June 30, 2018		June 30, 2017	
		Outstanding stock options		Outstanding stock options	
		Weighted-average Expected Remaining Years	Weighted-average Exercise Price per Share (NT\$)	Weighted-average Expected Remaining Years	Weighted-average Exercise Price per Share (NT\$)
2007.12.19	\$ 342.1~355.5	-	\$ 342.1	-	\$ 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	0.67	275.6
2012.08.09	284.8	0.63	284.8	1.63	284.9
2013.08.09	368.0	1.67	368.0	2.67	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. On June 15, 2018, the shareholders' meeting approved to issue gratuitous restricted stocks for employees, at a total of 19,200,000 common shares. The issuance process was not yet granted effective registration by the securities authority as of June 30, 2018.

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\$1,484,895 thousand in total based on the vesting conditions and will be recognized during the vesting period. As of June 30, 2018, MTK had recognized NT\$1,121,040 thousand as compensation expense and NT\$363,855 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 June 30, 2018. The total numbers of outstanding stock options were 835,210 units as of June 30, 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>Six months ended June 30, 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.

Restricted stocks plan for employees of Subsidiaries

On May 25, 2018, Airoha issued 3,128,995 non-gratuitous common stocks of Airoha (Cayman) Inc. to qualified employees of Airoha with subscription price of US\$3.48 per share. The lock-up period is from May 25, 2018 to December 31, 2021.

On June 15, 2018, Airoha issued 468,600 non-gratuitous common stocks of Airoha (Cayman) Inc. to qualified employees of Airoha with subscription price of US\$3.48 per share. The lock-up period is from June 15, 2018 to June 30, 2022.

Restriction on the rights and vesting conditions of restricted stocks for employees of 2018 is as follows:

- A. To issue common shares of Airoha (Cayman) Inc. with non-gratuitous issue price.
- B. Employee's continuous employment with Airoha through the lock-up period, with no violation on any terms of Airoha's employment agreement, employee handbook, or policies during the lock-up period, are eligible to receive the vested shares in full at the end of lock-up period.
- C. During the vesting period, employees may not sell, pledge, transfer, give to another person, create any encumbrance on, or otherwise dispose of, restricted employee shares.
- D. During the vesting period, the rights of proposal, speech, resolution and voting right, etc. in shareholders' meeting, and other affairs relevant to equity shall be executed by the custodian organization according to the trust contract.
- E. The restricted stock for employees issued by Airoha (Cayman) Inc. may be deposited in a security trust account.

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 compensation expenses recognized for employee services received for the six months ended June 30, 2018 and 2017, are shown in the following table:

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Employee stock options	\$ -	\$ 19,811	\$ -	\$ 9,923
Restricted stocks for employees	113,895	226,806	226,515	443,783
Total	<u>\$ 113,895</u>	<u>\$ 246,617</u>	<u>\$ 226,515</u>	<u>\$ 453,706</u>

The Company did not modify or cancel any share-based payment plans for the six months ended June 30, 2018 and 2017.

(24) Sales

	Three months ended June 30		Six months ended June 30	
	2018(Note)	2017	2018(Note)	2017
Revenue from contracts with customers				
Sale of goods	\$ 60,082,741	\$ 57,591,948	\$ 108,880,394	\$ 113,016,254
Services and other operating revenues	398,591	486,841	1,254,925	1,145,256
Total	<u>\$ 60,481,332</u>	<u>\$ 58,078,789</u>	<u>\$ 110,135,319</u>	<u>\$ 114,161,510</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.

The Company has adopted IFRS 15 since January 1, 2018. Relevant information of revenue from contracts with customers for the three months and six months ended June 30, 2018 is as follows:

A. Disaggregation of revenue

	Three months ended	Six months ended
	June 30, 2018	June 30, 2018
Sale of goods	\$ 60,082,741	\$ 108,880,394
Services and other operating revenues	398,591	1,254,925
Total	<u>\$ 60,481,332</u>	<u>\$ 110,135,319</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 June 30, 2018	Six months ended June 30, 2018
Revenue recognition point:		
At a point in time	\$ 60,269,323	\$ 109,129,847
Satisfies the performance obligation over time	212,009	1,005,472
Total	<u>\$ 60,481,332</u>	<u>\$ 110,135,319</u>

B. Contract balances

Contract liabilities - current

	Beginning balance	Ending balance	Difference
Sales of goods	\$ 1,057,970	\$ 1,282,684	\$ 224,714
Services and other operating revenues	371,385	411,211	39,826
Total	<u>\$ 1,429,355</u>	<u>\$ 1,693,895</u>	<u>\$ 264,540</u>

During the six months ended June 30, 2018, contract liabilities significantly increased as most performance obligations have not yet been satisfied. NT\$616,583 thousand included in the beginning balance had been recognized as revenue during the period.

C. Transaction price allocated to unsatisfied performance obligations

As of June 30, 2018, there is no need to provide relevant information of the unsatisfied performance obligations as the contract terms with customers about the sales of goods are all shorter than one year. Besides, the summarized amounts of transaction price allocated to unsatisfied performance obligations about rendering of services are NT\$684,365 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.

(25) Expected credit losses

	Three months ended June 30		Six months ended June 30	
	2018	2017 (Note)	2018	2017 (Note)
Operating expenses – Expected credit losses				
Trade receivables	<u>\$ 120,751</u>		<u>\$ 11,757</u>	

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.

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

The Company measures the loss allowance of its receivables (including note receivables, trade receivables and trade receivables from related parties) at an amount equal to lifetime expected credit losses. The assessment of the Company's loss allowance as at June 30, 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	After 90 days	
Gross carrying amount	\$ 31,039,084	\$ 540,866	\$ 51,039	\$ 56,942	\$ 614,463	\$ 32,302,394
Loss ratio	0%	0%	0%	0%~10%	20%~100%	
Lifetime expected credit losses	-	-	-	(5,679)	(340,454)	(346,133)
Carrying amount of trade receivables	<u>\$ 31,039,084</u>	<u>\$ 540,866</u>	<u>\$ 51,039</u>	<u>\$ 51,263</u>	<u>\$ 274,009</u>	<u>\$ 31,956,261</u>

Note: The Company's note receivables and trade receivables from related parties are not overdue.

The movement in the provision for impairment of receivables for the six months ended June 30, 2018 is as follows:

	Note receivables	Trade receivables (including related parties)
Beginning balance (in accordance with IAS 39)	\$ -	\$ 331,984
Beginning adjusted retained earnings	-	-
Beginning balance (in accordance with IFRS 9)	\$ -	\$ 331,984
Addition for the current period	-	11,757
Write off	-	(6,473)
Effect of changes in exchange rate	-	8,865
Ending balance	<u>\$ -</u>	<u>\$ 346,133</u>

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 and six months ended June 30, 2018 and 2017:

	Three months ended June 30					
	2018			2017		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Pension	\$ 7,898	\$ 416,461	\$ 424,359	\$ 7,221	\$ 380,117	\$ 387,338
Others	\$ 184,990	\$ 11,291,091	\$ 11,476,081	\$ 171,410	\$ 9,483,219	\$ 9,654,629
Depreciation	\$ 53,368	\$ 882,168	\$ 935,536	\$ 52,983	\$ 810,472	\$ 863,455
Amortization	\$ 6,816	\$ 896,312	\$ 903,128	\$ 185	\$ 923,262	\$ 923,447

	Six months ended June 30					
	2018			2017		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Pension	\$ 15,989	\$ 858,311	\$ 874,300	\$ 14,014	\$ 794,031	\$ 808,045
Others	\$ 368,068	\$ 21,330,476	\$ 21,698,544	\$ 338,005	\$ 19,973,645	\$ 20,311,650
Depreciation	\$ 107,019	\$ 1,767,821	\$ 1,874,840	\$ 105,340	\$ 1,603,685	\$ 1,709,025
Amortization	\$ 6,980	\$ 1,730,606	\$ 1,737,586	\$ 363	\$ 1,815,707	\$ 1,816,070

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

MTK accrued employees' compensation and remuneration to directors based on a specific rate of profit of the six months ended June 30, 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\$94,587 thousand and NT\$12,769 thousand for the three months ended June 30, 2018, respectively. The amounts of employees' compensation and remunerations to directors were NT\$127,977 thousand and NT\$17,277 thousand for the six months ended June 30, 2018, respectively. The amounts of employees' compensation and remunerations to directors were NT\$33,462 thousand and NT\$4,517 thousand for the three months ended June 30, 2017, respectively. The amounts of employees' compensation and remunerations to directors were NT\$113,691 thousand and NT\$15,348 thousand for the six months ended June 30, 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.

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.

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

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Interest income	(Note) \$	658,228	(Note) \$	1,170,876
Financial assets				
measured at amortized				
cost	\$ 839,004	(Note) \$	1,520,261	(Note)
Financial assets at fair				
value through other				
comprehensive income	178,447	(Note)	294,193	(Note)
Subtotal	1,017,451		1,814,454	
Dividend income	86,224	307,103	109,512	323,097
Rental income	38,016	22,987	70,343	53,337
Others	49,787	19,594	87,233	48,133
Total	\$ 1,191,478	\$ 1,007,912	\$ 2,081,542	\$ 1,595,443

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		Six months ended	
	June 30		June 30	
	2018	2017	2018	2017
Losses on disposal of property, plant and equipment	\$ (2,056)	\$ (436)	\$ (3,132)	\$ (2,455)
Gains (losses) on disposal of investments				
Non-current assets held for sale	3,460,483	-	3,460,483	5,123,575
Available-for-sale financial assets	(Note 1)	19,635	(Note 1)	(25,226)
Debt instruments measured at fair value through other comprehensive income	(433)	(Note 1)	(5,446)	(Note 1)
Investments accounted for using the equity method	-	653	-	1,487,719
Foreign exchange gains (losses)	420,502	166,195	392,472	(288,837)
Impairment losses				
Available-for-sale financial assets	(Note 1)	-	(Note 1)	(63,520)
Financial assets measured at cost	(Note 1)	-	(Note 1)	(269,673)
(To be continued)				

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

(Continued)

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Investments accounted for using the equity method	-	-	(22,760)	-
Gains on financial assets at fair value through profit or loss (Note 2)	103,688	12,260	489,562	211,937
Losses on financial liabilities at fair value through profit or loss (Note 3)	(14,572)	-	(14,897)	-
Others	(36,262)	9,417	(87,923)	(131,462)
Total	<u>\$ 3,931,350</u>	<u>\$ 207,724</u>	<u>\$ 4,208,359</u>	<u>\$ 6,042,058</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 in the six months ended June 30, 2018 was arising from financial assets mandatorily measured at fair value through profit or loss and balance in the six months ended June 30, 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 six months ended June 30, 2018 and 2017 were both arising from held for trading financial liabilities.

(29) Finance costs

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Interest expenses on borrowings	<u>\$ 440,717</u>	<u>\$ 216,019</u>	<u>\$ 847,902</u>	<u>\$ 375,868</u>

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 June 30, 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	\$ -	\$ -	\$ -	\$ 1,220	\$ 1,220
Unrealized losses from equity instrument investments measured at fair value through other comprehensive income	(7,248,321)	-	(7,248,321)	729,019	(6,519,302)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(673,308)	-	(673,308)	-	(673,308)
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	2,711,625	-	2,711,625	-	2,711,625
Unrealized (losses) gains from debt instrument investments measured at fair value through other comprehensive income	(15,782)	433	(15,349)	16	(15,333)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(3,624)	-	(3,624)	-	(3,624)
Total of other comprehensive income	\$ (5,229,410)	\$ 433	\$ (5,228,977)	\$ 730,255	\$ (4,498,722)

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 June 30, 2017 :

				Income tax relating to	
		Reclassification	Other	components of	Other
	Arising during	adjustments	comprehensive	other	comprehensive
	the period	during the period	income, before tax	comprehensive income	income, net of tax
Not to be reclassified to profit or loss:					
Remeasurements of the defined benefit plan	\$ -	\$ -	\$ -	\$ -	\$ -
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	892,408	-	892,408	-	892,408
Unrealized gains (losses) from available-for-sale financial assets	7,590,722	(19,983)	7,570,739	(755,443)	6,815,296
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	437	-	437	-	437
Total of other comprehensive income	\$ 8,483,567	\$ (19,983)	\$ 8,463,584	\$ (755,443)	\$ 7,708,141

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 six months ended June 30, 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)	\$ (14,448)	\$ (14,500)
Unrealized losses from equity instrument investments measured at fair value through other comprehensive income	(6,281,839)	-	(6,281,839)	605,684	(5,676,155)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	718,656	-	718,656	-	718,656
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	1,441,757	-	1,441,757	-	1,441,757
Unrealized gains from debt instrument investments measured at fair value through other comprehensive income	2,368	5,446	7,814	-	7,814
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(9,383)	-	(9,383)	-	(9,383)
Total of other comprehensive income	\$ (4,128,493)	\$ 5,446	\$ (4,123,047)	\$ 591,236	\$ (3,531,811)

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 six months ended June 30, 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	(4,046,696)	-	(4,046,696)	-	(4,046,696)
Unrealized gains from					
available-for-sale financial					
assets	12,264,907	88,398	12,353,305	(1,304,859)	11,048,446
Share of other comprehensive					
income of associates and					
joint ventures accounted for					
using the equity method	2,935	-	2,935	-	2,935
Total of other comprehensive					
income	\$ 8,221,160	\$ 88,398	\$ 8,309,558	\$ (1,304,859)	\$ 7,004,699

Upon derecognition of the Company's debt instrument investments measured at fair value through other comprehensive income, the cumulative gain or loss of NT\$(433) thousand for the three months ended June 30, 2018 and NT\$(5,446) thousand for the six months ended June 30, 2018, which were recognized in other comprehensive income were reclassified to profit or loss, respectively.

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 June 30		Six months ended June 30	
	2018	2017	2018	2017
Current income tax expense:				
Current income tax charge	\$ 1,635,163	\$ 1,929,539	\$ 2,424,485	\$ 3,282,303
Deferred tax (income) expense:				
Deferred tax income relating to origination and reversal of temporary differences	(697,229)	(1,026,638)	(595,436)	(1,464,003)
Deferred tax expense (income) relating to origination and reversal of tax loss and tax credit	12,574	75,785	(185,411)	85,001
Deferred tax income relating to changes in tax rate or the imposition of new taxes	(14,355)	-	(461,989)	-
Deferred tax expense arising from write-down or reversal of write-down of deferred tax asset	293,535	143,529	492,686	124,394
Others	30,130	47,587	37,750	4,064
Total income tax expense	<u>\$ 1,259,818</u>	<u>\$ 1,169,802</u>	<u>\$ 1,712,085</u>	<u>\$ 2,031,759</u>

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

	<u>Three months ended June 30</u>		<u>Six months ended June 30</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Deferred tax expenses (income):				
Remeasurements of the defined benefit plan	\$ (1,220)	\$ -	\$ 14,448	\$ -
Unrealized losses from equity instrument investments measured at fair value through other comprehensive income	(729,019)	-	(605,684)	-
Unrealized losses from debt instrument investments measured at fair value through other comprehensive income	(16)	-	-	-
Unrealized gains on available-for-sale financial assets	-	755,443	-	1,304,859
Income tax relating to components of other comprehensive income	<u>\$ (730,255)</u>	<u>\$ 755,443</u>	<u>\$ (591,236)</u>	<u>\$ 1,304,859</u>

The assessment of income tax returns

As of June 30, 2018, the assessment of the income tax returns of MTK and its material subsidiaries are as follows:

	<u>The assessment of income tax returns</u>	<u>Notes</u>
MTK	Assessed and approved up to 2015	(Notes 1 and 2)
Subsidiary- MStar Semiconductor Inc.	Assessed and approved up to 2015	
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.

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(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 June 30		Six months ended June 30	
	2018	2017	2018	2017
A. Basic earnings per share				
Profit attributable to ordinary equity owners of the parent (in thousand NT\$)	\$ 7,438,324	\$ 2,367,946	\$ 10,083,192	\$ 9,070,210
Weighted average number of ordinary shares outstanding for basic earnings per share (share)	1,564,915,297	1,563,789,601	1,564,907,261	1,563,789,601
Basic earnings per share (NT\$)	\$ 4.75	\$ 1.51	\$ 6.44	\$ 5.80
B. Diluted earnings per share				
Profit attributable to ordinary equity owners of the parent (in thousand NT\$)	\$ 7,438,324	\$ 2,367,946	\$ 10,083,192	\$ 9,070,210
Weighted average number of ordinary shares outstanding for basic earnings per share (share)	1,564,915,297	1,563,789,601	1,564,907,261	1,563,789,601
Effect of dilution:				
Employees' compensation-stock (share)	426,591	452,950	823,934	1,047,003
Employee stock options (share) (Note)	255,362	-	229,624	-
Restricted stocks for employees (share)	5,796,639	5,523,721	6,427,996	5,497,927
Weighted average number of ordinary shares outstanding after dilution (share)	1,571,393,889	1,569,766,272	1,572,388,815	1,570,334,531
Diluted earnings per share (NT\$)	\$ 4.73	\$ 1.51	\$ 6.41	\$ 5.78

MEDIATEK INC. AND SUBSIDIARIES

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

Note: There were no dilutive employee stock options for the three months and six months ended June 30, 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.

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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

	Fair value recognized on the acquisition date
Cash and cash equivalents	\$ 1,399,093
Current assets	1,532,639
Property, plant and equipment	115,200
Intangible assets – software, patent, and trademark	1,358,427
Other non-current assets	57,586
	<u>4,462,945</u>
Current liabilities	(1,050,070)
Other non-current liabilities	(16,113)
	<u>(1,066,183)</u>
Fair value of identifiable net assets	<u>\$ 3,396,762</u>

Goodwill of Airoha is as follows:

	Amount
Cash consideration (Note)	\$ 2,455,624
Fair value of equity interest in Airoha originally held by the Company	1,704,331
Add: non-controlling interest	1,276,173
Less: identifiable net assets at fair value	(3,396,762)
Goodwill	<u>\$ 2,039,366</u>

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

Cash flows on acquisition:

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

The goodwill of NT\$2,039,366 thousand 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 six months ended June 30, 2017 would have been NT\$115,004,383 thousand and NT\$8,851,199 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)

(34) Changes in ownership interests in subsidiaries

Changes in ownership of subsidiaries

The Company purchased additional 20.45% of voting shares of Nephos (Hefei) Co. Ltd. in May 2018 and its ownership rose up to 83%. As there is no loss of control on subsidiary, the changes of the ownership interest was accounted for as an equity transaction. The difference between the fair value of purchased equity investments and the decrease in the non-controlling interest was NT\$(1,379,861) thousand and was recorded in equity.

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 the companies remained. The difference between the fair value of purchased equity investments and the increase in the non-controlling interest for the six months ended June 30, 2017 and the year ended December 31, 2017 were NT\$986,988 thousand and NT\$969,913 thousand, respectively, which were 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	June 30, 2017
Airoha Technology Corp.	Taiwan	38%

Accumulated balances of material non-controlling interest:

	June 30, 2017
Airoha Technology Corp.	\$ 1,324,892

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Loss allocated to material non-controlling interest for the period from March 14, 2017 to June 30, 2017:

	For the six months ended June 30, 2017
Airoha Technology Corp.	\$ (64,937)

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 June 30, 2017:

	Airoha Technology Corp.
Operating revenue	\$ 1,411,732
Loss for the period from continuing operations	\$ (172,844)
Total comprehensive income for the period	\$ (172,941)

Summarized information of financial position as at June 30, 2017:

	Airoha Technology Corp.
Current assets	\$ 2,565,460
Non-current assets	\$ 3,666,296
Current liabilities	\$ 904,947
Non-current liabilities	\$ 15,875

Summarized cash flow information for the period from March 14, 2017 to June 30, 2017:

	Airoha Technology Corp.
Operating activities	\$ (151,758)
Investing activities	\$ (13,617)
Financing activities	\$ (121,153)
Net decrease in cash and cash equivalents	\$ (283,522)

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)
Intelligo Technology Inc.	Associate
King Yuan Electronics Co., Ltd. and its subsidiaries	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) Sales**

	<u>Three months ended June 30</u>		<u>Six months ended June 30</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Associates				
Intelligo Technology Inc.	\$ 3,988	\$ -	\$ 3,988	\$ -

The trade credit terms for associates was 30 days and third-party customers was 30 to 150 days. Third-party customers may pay their accounts in advance.

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

	<u>Three months ended June 30</u>		<u>Six months ended June 30</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Other related parties				
King Yuan Electronics Co., Ltd. and its subsidiaries	\$ 843,074	\$ 706,218	\$ 1,463,686	\$ 1,447,885

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

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

(3) Consign research and development expenses and license expenses

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Other related parties				
Andes Technology Corp.	\$ 22,692	\$ 525	\$ 24,178	\$ 22,319

(4) Rental income

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Associates				
Airoha Technology Corp.	\$ -	\$ -	\$ -	\$ 2,831
Other related parties				
Andes Technology Corp.	176	133	353	267
Total	\$ 176	\$ 133	\$ 353	\$ 3,098

(5) Trade receivables from related parties

	June 30, 2018	December 31, 2017	June 30, 2017
Associates			
Intelligo Technology Inc.	\$ 1,598	\$ -	\$ -

(6) Trade payables to related parties

	June 30, 2018	December 31, 2017	June 30, 2017
Other related parties			
King Yuan Electronics Co., Ltd. and its subsidiaries	\$ 965,771	\$ 571,593	\$ 741,406

(7) Other payables to related parties

	June 30, 2018	December 31, 2017	June 30, 2017
Other related parties			
Andes Technology Corp.	\$ 21,708	\$ -	\$ -

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(8) Key management personnel compensation**

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Short-term employee benefits (Note)	\$ 267,801	\$ 233,167	\$ 480,097	\$ 452,148
Share-based payment	40,024	85,642	82,741	158,139
Post-employment benefits	882	805	1,759	2,353
Total	<u>\$ 308,707</u>	<u>\$ 319,614</u>	<u>\$ 564,597</u>	<u>\$ 612,640</u>

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

8. Assets Pledged as Collateral

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

Assets pledged as collateral	Carrying amount			Purpose of pledge
	June 30, 2018	December 31, 2017	June 30, 2017	
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	18,798	(Note)	(Note)	Performance bond
Financial assets measured at amortized cost-noncurrent	503	(Note)	(Note)	Customs clearance deposits
Financial assets measured at amortized cost-noncurrent	111	(Note)	(Note)	Lease execution deposits
Financial assets measured at amortized cost-noncurrent	24,273	(Note)	(Note)	Customs clearance deposits
Financial assets measured at amortized cost-noncurrent	23,018	(Note)	(Note)	Land lease guarantee
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

(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
	June 30, 2018	December 31, 2017	June 30, 2017	
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	19	(Note)	(Note)	Customs pledged
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)	-	3,180	Customs clearance deposits
Debt instrument investments for which no active market exists-noncurrent	(Note)	528	532	Customs clearance deposits
Debt instrument investments for which no active market exists-noncurrent	(Note)	117	118	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
Debt instrument investments for which no active market exists-noncurrent	(Note)	24,234	24,199	Customs clearance deposits

(To be continued)

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

(Continued)

Assets pledged as collateral	Carrying amount			Purpose of pledge
	June 30, 2018	December 31, 2017	June 30, 2017	
Debt instrument investments for which no active market exists-noncurrent	(Note)	23,018	24,526	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	3,146	Customs clearance deposits
Debt instrument investments for which no active market exists-noncurrent	(Note)	9,808	9,739	Lease execution deposits
Property, plant and equipment - buildings and facilities	267,392	331,050	412,862	Long-term borrowings
Property, plant and equipment - buildings and land	328,970	331,506	334,042	Long-term borrowings
Investment property-buildings and facilities	136,379	79,745	-	Long-term borrowings
Total	<u>\$ 839,331</u>	<u>\$ 869,426</u>	<u>\$ 1,039,229</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:

	June 30, 2018	December 31, 2017	June 30, 2017
Not later than one year	\$ 565,897	\$ 585,929	\$ 627,590
Later than one year but not later than five years	769,576	844,803	1,014,595
Later than five years	317,133	225,302	255,578
Total	<u>\$ 1,652,606</u>	<u>\$ 1,656,034</u>	<u>\$ 1,897,763</u>

Operating lease expenses are as follows:

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Minimum lease payments	<u>\$ 169,706</u>	<u>\$ 226,236</u>	<u>\$ 341,116</u>	<u>\$ 427,449</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

	June 30, 2018	December 31, 2017	June 30, 2017
Financial assets at fair value through profit or loss:			
Held for trading financial assets	\$ 459	\$ 27	\$ 210
Designated at fair value through profit or loss at initial recognition	-	5,340,886	5,347,545
Mandatorily measured at fair value through profit or loss (Note 2)	14,424,393	(Note 1)	(Note 1)
Subtotal	14,424,852	5,340,913	5,347,755
Financial assets at fair value through other comprehensive income	39,088,684	(Note 1)	(Note 1)
Available-for-sale financial assets (Note 3)	(Note 1)	37,637,472	39,691,476
Financial assets measured at amortized cost (Note 4)	215,108,301	(Note 1)	(Note 1)
Financial assets measured at cost	(Note 1)	12,635,302	9,430,486
Loans and receivables (Note 5)	(Note 1)	184,642,610	179,653,936
Total	\$ 268,621,837	\$ 240,256,297	\$ 234,123,653

Financial liabilities

	June 30, 2018	December 31, 2017	June 30, 2017
Financial liabilities at fair value through profit or loss:			
Held for trading financial liabilities	\$ 14,897	\$ 18,144	\$ 10,678

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

	June 30, 2018	December 31, 2017	June 30, 2017
Financial liabilities at amortized cost:			
Short-term borrowings	79,288,225	64,315,682	63,237,072
Trade payables (including related parties)	28,739,969	23,584,452	30,901,023
Other payables (including related parties)	45,799,349	35,796,290	47,122,661
Long-term payables (including current portion)	2,068,884	1,726,364	1,303,833
Long-term borrowings (including current portion)	354,617	373,042	419,086
Subtotal	156,251,044	125,795,830	142,983,675
Total	<u>\$ 156,265,941</u>	<u>\$ 125,813,974</u>	<u>\$ 142,994,353</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. Includes trade receivables classified as financial assets measured at fair value through profit or loss of NT\$3,699,883 thousand. Please refer to Note. 6 (8) for further explanation.
3. Balances as at December 31, 2017 and June 30, 2017 include financial assets measured at cost.
4. Includes cash and cash equivalents (exclude cash on hand), financial assets measured at amortized cost, notes receivable, trade receivables (excluding financial assets measured at fair value through profit or loss of NT\$3,699,883 thousand. Please refer to Note. 6 (8) for further explanation) and other receivables.
5. 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 (including related parties), other receivables, short-term borrowings, trade payables (including related parties) and other payables (including related parties) approximate their fair value due to their short maturities.
- (b) For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities and bonds) at the reporting date.

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 June 30, 2018

	Level 1	Level 2	Level 3	Total
<u>Financial assets:</u>				
Financial assets at fair value through profit or loss				
Bonds	\$ 460,552	\$ -	\$ 966,589	\$ 1,427,141
Forward exchange contracts	-	459	-	459
Linked deposits	-	259,354	3,991,568	4,250,922
Stocks	-	-	143,503	143,503
Funds	3,344,209	-	1,558,735	4,902,944
Financial assets at fair value through other comprehensive income				
Equity instruments measured at fair value through other comprehensive income	1,899,841	17,961,247	15,176,855	35,037,943
Debt instruments measured at fair value through other comprehensive income	1,566,283	-	2,484,458	4,050,741
Total	<u>\$ 7,270,885</u>	<u>\$ 18,221,060</u>	<u>\$ 24,321,708</u>	<u>\$ 49,813,653</u>
<u>Financial liabilities:</u>				
Financial liabilities at fair value through profit or loss				
Forward exchange contracts	<u>\$ -</u>	<u>\$ 14,897</u>	<u>\$ -</u>	<u>\$ 14,897</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>
----------------------------	-------------	------------------	-------------	------------------

As of June 30, 2017

	Level 1	Level 2	Level 3	Total
<u>Financial assets:</u>				
Financial assets at fair value				
through profit or loss				
Bonds	\$ 448,804	\$ 210	\$ 655,438	\$ 1,104,452
Linked deposits	-	523,162	3,720,141	4,243,303
Available-for-sale financial assets				
Stocks	2,081,080	25,829,131	32,701	27,942,912
Bonds	4,474,585	-	2,801,313	7,275,898
Funds	3,646,868	-	825,798	4,472,666
Total	<u>\$ 10,651,337</u>	<u>\$ 26,352,503</u>	<u>\$ 8,035,391</u>	<u>\$ 45,039,231</u>

Financial liabilities:

Financial liabilities at fair value

through profit or loss

Forward exchange contracts	<u>\$ -</u>	<u>\$ 10,678</u>	<u>\$ -</u>	<u>\$ 10,678</u>
----------------------------	-------------	------------------	-------------	------------------

For the six months ended June 30, 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	385,030	7,742	14,214	(42,940)	2,424	-	-	366,470
Amount recognized								
in OCI	-	-	-	-	6,475	487,323	(597,617)	(103,819)
Amount recognized								
in OCI- exchange								
differences	(3,930)	36,231	2,832	80,823	14,208	172,459	79,839	382,462
Acquisitions	-	-	1,927,177	1,098,000	322,386	1,104,273	-	4,451,836
Settlements	(736,913)	(1,379,238)	(1,330,437)	(1,098,000)	(232,578)	(187,582)	(34,445)	(4,999,193)
As of June 30, 2018 \$	<u>143,503</u>	<u>\$ 966,589</u>	<u>\$ 1,558,735</u>	<u>\$ 3,991,568</u>	<u>\$ 2,484,458</u>	<u>\$ 10,753,663</u>	<u>\$ 4,423,192</u>	<u>\$ 24,321,708</u>

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

	Financial assets at fair value through profit or loss		Available-for-sale financial assets			
	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	31,288	26,139	3,173	7,542	-	68,142
Amount recognized in OCI	-	-	29,744	-	-	29,744
Amount recognized in OCI- exchange differences	(21,879)	(178,678)	(106,901)	(26,926)	-	(334,384)
Acquisitions	-	821,224	1,119,996	718,085	-	2,659,305
Settlements	-	(756,161)	(550,889)	(662,837)	-	(1,969,887)
As of June 30, 2017	\$ 655,438	\$ 3,720,141	\$ 2,801,313	\$ 825,798	\$ 32,701	\$ 8,035,391

Total gains related to assets recognized for the six months ended June 30, 2018 and 2017 amounted to NT\$15,095 thousand and NT\$59,025 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 June 30, 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 June 30, 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 June 30, 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	\$ -	\$ -	\$ 1,532,236	\$ 1,532,236

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 June 30, 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	\$ -	\$ -	\$ 1,229,068	\$ 1,229,068

- 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 June 30, 2018	CNY to USD	Buy USD 102,584	July 2018
As of June 30, 2018	CNY to USD	Sell USD 3,000	July 2018
As of June 30, 2018	CNY to USD	Sell USD 2,000	August 2018
As of June 30, 2018	CNY to USD	Sell USD 2,000	September 2018
As of June 30, 2018	CNY to USD	Sell USD 3,000	October 2018
As of June 30, 2018	CNY to USD	Sell USD 2,000	November 2018
As of June 30, 2018	TWD to USD	Sell USD 7,000	July 2018
As of December 31, 2017	CNY to USD	Buy USD 39,712	January 2018
As of December 31, 2017	CNY to USD	Sell USD 1,000	January 2018
As of June 30, 2017	TWD to USD	Sell USD 70,000	July 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 six months ended June 30, 2018 and 2017 decreases/increases by NT\$2,591 thousand and NT\$4,219 thousand, while equity decreases/increases by NT\$78,488 thousand and NT\$77,662 thousand, respectively.

When NTD appreciates or depreciates against CNY by 0.1%, the profit for the six months ended June 30, 2018 and 2017 decreases/increases by NT\$3 thousand and NT\$63 thousand, while equity decreases/increases by NT\$9,480 thousand and NT\$6,118 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 six months ended June 30, 2018 and 2017 to increase/decrease by NT\$4,816 thousand and decrease/increase by NT\$5,579 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 six months ended June 30, 2017 to increase/decrease by NT\$315,570 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 six months ended June 30, 2018 to increase/decrease by NT\$198,611 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 June 30, 2018, December 31, 2017, and June 30, 2017 receivables from top ten customers represented 45.89%, 42.78%, and 36.56% 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 June 30, 2018</u>				
Short-term borrowings	\$ 79,468,685	\$ -	\$ -	\$ 79,468,685
Trade payables (including related parties)	28,739,969	-	-	28,739,969
Other payables (including related parties)	45,689,942	-	-	45,689,942
Long-term borrowings	41,977	257,869	74,818	374,664
Long-term payables	1,392,874	676,010	-	2,068,884
Total	<u>\$ 155,333,447</u>	<u>\$ 933,879</u>	<u>\$ 74,818</u>	<u>\$ 156,342,144</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 June 30, 2017

Short-term borrowings	\$ 63,312,755	\$ -	\$ -	\$ 63,312,755
Trade payables (including related parties)	30,901,023	-	-	30,901,023
Other payables	47,089,114	-	-	47,089,114
Long-term payables	56,762	270,316	113,001	440,079
Total	<u>\$ 141,359,654</u>	<u>\$ 270,316</u>	<u>\$ 113,001</u>	<u>\$ 141,742,971</u>

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

	<u>Less than 1 year</u>	<u>1 to 5 years</u>	<u>Total</u>
<u>As of June 30, 2018</u>			
Net settlement			
Forward exchange contracts	\$ (825)	\$ -	\$ (825)
Gross settlement			
Forward exchange contracts			
Inflow	\$ 2,245,868	\$ -	\$ 2,245,868
Outflow	(2,261,684)	-	(2,261,684)
Net	\$ (15,816)	\$ -	\$ (15,816)
<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	\$ (21,080)	\$ -	\$ (21,080)
<u>As of June 30, 2017</u>			
Net settlement			
Forward exchange contracts	\$ (12,385)	\$ -	\$ (12,385)

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 June 30, 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	14,609,468	(18,425)	21,280	14,612,323
Foreign exchange movement	363,075	-	-	363,075
As of June 30, 2018	\$ 79,288,225	\$ 354,617	\$ 200,752	\$ 79,843,594

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

Reconciliation of liabilities as at June 30, 2017:

Not applicable

(3) Significant assets and liabilities denominated in foreign currencies

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

June 30, 2018			
	Foreign Currency (thousand)	Exchange rate	NT\$ (thousand)
Financial assets			
Monetary item:			
USD	\$ 5,304,090	30.500	\$ 161,774,764
CNY	\$ 42,973	4.606	\$ 197,911
Non-monetary item:			
USD	\$ 1,186,891	30.500	\$ 36,200,182
CNY	\$ 2,018,936	4.606	\$ 9,298,232
Financial liabilities			
Monetary item:			
USD	\$ 3,832,655	30.500	\$ 116,896,009
CNY	\$ 2,820	4.606	\$ 12,986
December 31, 2017			
	Foreign Currency (thousand)	Exchange rate	NT\$ (thousand)
Financial assets			
Monetary item:			
USD	\$ 4,377,407	29.848	\$ 130,656,838
CNY	\$ 1,867,940	4.587	\$ 8,440,931
Non-monetary item:			
USD	\$ 1,401,158	29.848	\$ 41,821,776
CNY	\$ 1,593,359	4.587	\$ 7,308,947
Financial liabilities			
Monetary item:			
USD	\$ 3,094,624	29.848	\$ 92,368,322
CNY	\$ 1,440,467	4.587	\$ 6,607,609

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

	June 30, 2017		
	Foreign Currency (thousand)	Exchange rate	NT\$ (thousand)
Financial assets			
Monetary item:			
USD	\$ 4,775,194	30.436	\$ 145,337,776
CNY	\$ 124,099	4.488	\$ 556,960
Non-monetary item:			
USD	\$ 1,350,703	30.436	\$ 41,109,988
CNY	\$ 1,363,245	4.488	\$ 6,118,285
Financial liabilities			
Monetary item:			
USD	\$ 3,365,631	30.436	\$ 102,436,358
CNY	\$ 110,018	4.488	\$ 493,762

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 gain was NT\$420,502 thousand and NT\$166,195 thousand for the three months ended June 30, 2018 and 2017, respectively. The foreign exchange gain (loss) was NT\$392,472 thousand and NT\$(288,837) thousand for the six months ended June 30, 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.