



CONNECTING
the next billion



MediaTek continues to connect the next billions of people
and devices across a spectrum of technologies.

Annual Report 2016

MEDIATEK

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Annual Report website of MediaTek Inc. : <https://www.mediatek.com/investor-relations/financial-information/annual-reports>

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2016 MediaTek Annual Report

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I. Letter to Shareholders

Dear Shareholders:

2016 was a fruitful year for MediaTek in consumer electronic markets. Our revenue increased by approximately 30% from prior year, hitting record high. Despite of global semiconductor market slowdown, various kinds of innovative end applications emerged to unlock growth potential. MediaTek actively responded to changes in the dynamic industry and fierce market competition by continuously expanding product lines as well as technologies diversity to provide customers with the best solutions. Thanks to our employees' dedication, MediaTek achieved full year consolidated net revenues of NT \$275.5 billion and consolidated earnings per share of NT \$15.16.

Having been deeply dedicated to smartphone market for the past five years, MediaTek continued to achieve success in 2016. Thanks to increasing LTE adoption pushed by Chinese operators and growing LTE demand in emerging markets, MediaTek gained market share through the comprehensive product portfolio and reached a record high smartphone plus tablet shipments of approximately 550 million sets. In terms of global market expansion and customer acquisition, MediaTek also achieved several milestones. In US market, LTE products completed four major carriers' qualification and Helio P10-inside world-mode LTE smartphone officially hit the market, making MediaTek successfully become one of the very few chipset vendors supporting CDMA networks. Furthermore, our LTE SoCs were adopted by the leading international brand, Samsung, for the very first time, completing our customer coverage in the world's major Android smartphone brands. In addition, we collaborate with global operators on 5G technology development, including China Mobile, NTT DOCOMO and Nokia, preparing for the next upgrade cycle of mobile communication technologies.

Products other than handset, such as set-up-box and WiFi, also expand market presence. MediaTek is committed to leveraging comprehensive IP portfolio to enable more business opportunities with customers. For example, MediaTek-inside AI smart home control unit, Amazon Echo Dot, was well-received by consumers. Besides, we continue to work closely with global tier-one customers such as Amazon and Sony across platforms including TV, tablet, game console, smart home, IoT, etc. The acquired subsidiaries such as MStar and Richtek also continue to explore more business opportunities to grow. In addition, MediaTek announced to further extend core competencies to the emerging Internet of Vehicles market and strategically allied with NavInfo to strengthen our position.

Apart from business horizon expansion, MediaTek received a number of international honors. We were awarded as "Top 100 Global Innovators" by Clarivate Analytics (formerly Thomson Reuters) for third consecutive year and won "Outstanding Asia-Pacific Semiconductor Company Award" by the Global Semiconductor Alliance (GSA) for the fifth consecutive year. Furthermore, Mr. Ming-Kai Tsai, MediaTek Chairman and CEO, was chosen as one of Harvard Business Review's "100 Best-Performing CEOs in the World".

Looking forward, MediaTek will continue to exploit our group advantages and integrate our comprehensive and leading core technologies such as modem, RF, computing, image processing, connectivity, smart algorithm, etc. Based on which, we actively expand into various smart connected devices as well as potential markets, including 5G, Internet of Vehicles, Internet of

Things, VR/AR, Industrial 4.0, etc. to maintain our leading position and create higher shareholder values. Last but not the least, we would like to thank you - our shareholders - for your continuous support and belief in our efforts.

Chairman: Ming-Kai Tsai
Vice-Chairman and President: Ching-Jiang Hsieh

II. Company Profile

1. MediaTek Company Profile

MediaTek Inc. was founded on May 28, 1997 and listed on the Taiwan Stock Exchange (TSE) in July 2001. The company is headquartered in Taiwan, with sales and research subsidiaries in Singapore, Mainland China, Hong Kong, India, US, Japan, Korea, England, Finland, Sweden, France, Holland and Dubai.

MediaTek Inc. is one of the top 3 IC design companies in the world. With continuous investments in advanced process and technologies, MediaTek provides highly-integrated and innovative chipsets for mobile device, home entertainment, connectivity, IoT as well as wearable devices and automotive products. MediaTek helps customers reduce the development time of new products and extend a competitive edge in global markets.

By building technologies that help connect individuals to the world around them, MediaTek is enabling people to expand their horizons and more easily achieve their goals. We believe anyone can achieve something amazing. And we believe they can do it every single day. We call this idea Everyday Genius and it drives everything we do.

2. Milestones

Year	Milestones
2017	<ul style="list-style-type: none"> ■ Published 10 papers in ISSCC and hit a new record of numbers of papers selected by ISSCC among the global semiconductor companies – “A high-efficiency multi-band Class-F power amplifier in 0.1531Jm bulk CMOS for WCDMA/LTE applications”, “A 0.46mW 5MHzBW79.7dB SNDR Noise-Shaping SAR ADC with Dynamic FIR-IIR Filter”, “A 10nm FinFET 2.8GHz, Tri-gear Deca-core CPU complex with optimized Power-delivery network for Mobile SoC Performance”, “An 802.11ac 5stage2(80+80) Dual-Band Reconfigurable Transceiver Supporting up to FourVHTBO Spatial Streams with 116f5 JitterRMS Frequency Synthesizer & Integrated LNAJPA Delivering 256QAM 19dBm per Stream Achieving 1.733Gbps PHY Rate”, “An Intelligent Low Power Transceiver Design for LTE-A Carrier Aggregation”, “A +8dBm BLEIBT Transceiver with Automatically Calibrated Integrated RF Band-Pass Filter and -58dBc TX HD2”, “A 125MHz BW, 74.BdB DR, 71.9dB SNDR, -BOdBc THD, VCO-Based CT A.r. ACe with Phase-Domain ELD Compensation using 128- State Segmented Rotator in 16nm CMOS S-2”, “A Fully Integrated Multi-Mode TxM for GSMIEDGEITD-SCDMAITDLTE Applications Using A Class-F CMOS Power Amplifier”, “A Digitally Assisted CMOS WiFi802.11ac/11ax Front-End Module Achieving 12% PA Efficiency at 20dBm Output Power with 160MHz 256QAM OFDM Signal”, and “A high-linearity CMOS receiver achieving +44dBm IIP3 and +13dBm B1dB for SAW-less LTE radio” ■ Resolution of acquisition of Airoha Technology Corp.
2016	<ul style="list-style-type: none"> ■ Awarded “Top 100 Global Innovators 2016” by Clarivate Analytics (formerly Thomson Reuters) for the third consecutive year ■ Received “Outstanding Asia-Pacific Semiconductor Company Award” from Global Semiconductor Alliance (GSA) for the fifth consecutive year ■ Selected as “Taiwan Top 10 Global Brands 2016”, hosted by Ministry of Economic Affairs and co-hosted by Interbrand for the second consecutive year ■ Mr. Ming-Kai Tsai, MediaTek Chairman and CEO, was honored by Harvard Business Review as one of “100 Best-Performing CEOs in the World” ■ Won “Taiwan Corporate Sustainability Awards 2016 – Electronics Industry” Gold Medal from Taiwan Institute for Sustainable Energy (TAISE) and “Supply Chain Management Awards” as well as “Growth through Innovation Awards” for the first time ■ Selected as “Most Admired Company Top 10”, hosted by Commonwealth Magazine and Mr. Ming-Kai Tsai, MediaTek Chairman and CEO, was honored as one of the “Most Admired Entrepreneurs”. ■ Published 6 papers in ISSCC and hit a new record of papers selected by ISSCC for thirteen consecutive years among Taiwan companies – “A 20nm, 2.5GHz, UltraLow Power TriCluster CPU Subsystem with Adaptive Power Allocation for Optimal Mobile SoC Performance”, “A 10MHzbandwidth, 4μs largesignal settling, 6.5nV/vHz noise, 2μVoffset Chopper Operational Amplifier”, “A Dual-Band Digital-WiFi 802.11a/b/g/n Transmitter SoC with Digital I/Q Combining and Diamond Profile Mapping for Compact Die Area and Improved Efficiency in 40nm CMOS”, “A 160MHz BW, 72dB DR, 40mW Continuous Time DeltaSigma Modulator in 16nm CMOS with Analog ISIreduction Technique”, “An Oversampling SAR ADC with DAC Mismatch Error Shaping Achieving 105dB SFDR and 101dB SNDR over 1kHz BW in 55nm CMOS”, and “A 0.35mW 12b 100MS/s SAR Assisted Digital Slope ADC in 28nm CMOS” ■ Acquired ILI Technology Corp. ■ MediaTek MT7615, MU-MIMO 4x4 802.11ac Wave 2 enterprise-class SoC for Wi-Fi connectivity, honored as “Innovation Product

Year	Milestones
	Award and R&D Accomplishment Award (Integrated Circuit) ” given by Hsinchu Science Park Bureau
2015	<ul style="list-style-type: none"> ■ Once again selected by “Thomson Reuters' Top 100 Global Innovators 2015” (the only Greater China company won the prize for second consecutive year) ■ Awarded “Outstanding Asia Pacific Semiconductor Company Award” by the Global Semiconductor Alliance (GSA) for the fourth consecutive year ■ Mr. Ming-Kai Tsai, MediaTek Chairman and CEO, winner of “Dr. Morris Chang Exemplary Leadership Award” awarded by Global Semiconductor Alliance (GSA) ■ Selected as “Taiwan Top 10 Global Brands 2015”, hosted by Ministry of Economic Affairs and co-hosted by Interbrand for the first time ■ MediaTek MT6795 (MediaTek Helio X10), Highly-integrated 64-bit True Octa-Core SoC, honored as “Innovation Product Award and R&D Accomplishment Award (Integrated Circuit)” given by Hsinchu Science Park Bureau ■ MediaTek Helio Chinese naming campaign received Bronze prize in “MAwards - Best Use of Social Media Promotion & Innovation Awards” ■ MediaTek Helio Chinese naming campaign won Bronze prize in “GOLDEN AWARDS - Best Use of Social Media Promotion & Innovation Awards” ■ Won “Taiwan Corporate Sustainability Awards 2015 – Electronics Industry” Silver Medal by Taiwan Institute from Sustainable Energy (TAISE) ■ Ranked sixth in “Top 20 Most Innovative Taiwanese Companies 2015” by Ministry of Economic Affairs, China Productivity Center and Boston Consulting Group (BCG) ■ Published 5 papers in ISSCC, and hit a new record of papers selected by ISSCC for twelve consecutive years among Taiwan companies – “A Highly Integrated Smartphone SoC Featuring a 2.5GHz Octa-Core CPU with Advanced High-Performance and Low-Power Techniques”, “An LTE SAW-less Transmitter Using 33% Duty-Cycle LO Signals for Harmonic Suppression”, “A Wideband Fractional-N Ring PLL Using a Near-Ground Pre-Distorted Switched-Capacitor Loop Filter”, “A 4.5mW CT Self-Coupled rΣ Modulator with 2.2MHz BW and 90.4dB SNDR Using Residual ELD Compensation”, and “A 0.5nJ/Pixel 4K H.265/HEVC Codec LSI for Multi-format Smartphone Applications” ■ Acquired Alpha Imaging Technology Corp. ■ Acquired Chingis Technology Corp. ■ Acquired Richtek Technology Corp.
2014	<ul style="list-style-type: none"> ■ Named “Outstanding Asia Pacific Semiconductor Company Award” by the Global Semiconductor Alliance(GSA) for the third consecutive year ■ MediaTek MT6592, High Performance and Low Power True Octa-Core Heterogeneous Computing SoC, honored as “Innovation Product Award and R&D Accomplishment Award (Integrated Circuit)” given by Hsinchu Science Park Bureau ■ Selected by Thomson Reuters in “The World’s 100 Most Innovative Companies in 2014” ■ Mr. Ming-Kai Tsai, Chairman of MediaTek Inc., is honored by Harvard Business Review as one of “The Best-Performing CEOs in the World” for second consecutive years, and is the only leader from Taiwan on this list ■ Awarded “2014 Most Admired Company in Taiwan Top 3” by CommonWealth Magazine ■ Awarded seventh place in the “2014 Top 20 Taiwan Innovative Corporations” by the Ministry of Economic Affairs, China Productivity Center and Boston Consulting Group (BCG) ■ Published 8 papers in ISSCC, not only ranked no.1 in Taiwan, but also a record high for the semiconductor industry – “Heterogeneous Multi-Processing Quad-core CPU and Dual-GPU design for optimal Performance, Power and Thermal tradeoffs in a 28nm Mobile Application Processor”, “A Digitally Assisted Self-Calibrating NFC SoC with a Triple-Mode Reconfigurable PLL and a Single-Path PCCC-PCD Receiver in 110nm CMOS”, “A 2.4GHz ADPLL with Digital-Regulated Supply Noise Insensitive and Temperature Self-Compensated Ring DCO”, “A 1.89nW/0.15V self-charged XO for real-time clock generation”, “A Multi-band Inductor-less SAW-less 2G/3G Cellular Receiver in 40nm CMOS”, “A 2.667 Gb/s DDR3 Memory Interface with Asymmetric ODT on Wirebond Package and Single-Side Mounted PCB”, “A 0.29mm² Frequency Synthesizer in 40nm CMOS with 0.19ps RMS Jitter and <100dBc Reference Spur for 802.11ac”, and “Cloud 2.0 Clients and Connectivity 40nm CMOS with 0.19ps RMges” ■ Acquired MStar Semiconductor, Inc. (Cayman)
2013	<ul style="list-style-type: none"> ■ Once again won “Outstanding Asia-Pacific Semiconductor Company Award” selected by Global Semiconductor Alliance ■ Selected by Forbes Magazine in “The World’s 100 Most Innovative Companies”, and the only company in Taiwan in this list ■ Mr. Ming-Kai Tsai, Chairman & CEO of MediaTek Inc., was named in “The Best-Performing CEOs in the World” by Harvard Business Review ■ Selected as a test bed for the Wi-Fi Alliance's Wi-Fi CERTIFIED™ ac certification program ■ Awarded “2013 Most Admired Company in Taiwan Top 3” by CommonWealth Magazine ■ Published 6 papers in ISSCC, the most among Taiwan technology companies – “A Wideband Fractional-N Ring PLL with Fractional Suppression using Spectrally Shaped Segmentation”, “A 0.27mm², 13.5dBm, 2.4GHz All-digital Polar Transmitter with 34%-Efficiency Class-D DPA in 40nm CMOS”, “An AC-Coupled Hybrid Envelope Modulator for HSUPA Transmitters with 80% Modulator Efficiency”, “A 24.7dBm All-Digital RF Transmitter for Multimode Broadband Applications in 40nm CMOS”, “A 28fj/conv-step CT Modulator with 78dB DR and 18MHz BW in 28nm CMOS Using a Highly Digital Multibit Quantizer”, and “A Universal GNSS (GPS/Galileo/Glonass/Beidou) SoC 10:15 AM with a 0.25mm² Radio in 40nm CMOS”

Year	Milestones
2012	<ul style="list-style-type: none"> ■ MediaTek Android smartphone platform included in the Wi-Fi CERTIFIED Passpoint™ test bed as the first and only mobile benchmark platform ■ Ralink Technology, a wholly owned subsidiary of MediaTek Inc, was selected to be in the Wi-Fi CERTIFIED WMM® -Admission Control test bed as the benchmark for advanced Wi-Fi performance and interoperability ■ MT6620, highly Integrated WiFi/BT/FM/GPS 4-in-1 SoC, honored as “2012 Innovative Product Award” by Science-based Industrial Park Administration (SIPA) ■ The winner of “Outstanding Asia-Pacific Semiconductor Company Award” selected by Global Semiconductor Alliance (GSA) ■ Awarded “2012 Top 10 Taiwan Innovative Corporations” by Ministry of Economic Affairs, China Productivity Center and Boston Consulting Group (BCG) ■ Won “2012 Thomson Reuters Taiwan Innovation Awards - Top 5 Corporate Innovators in Taiwan” ■ Awarded “2012 Most Admired Company in Taiwan Top 3” by Commonwealth Magazine ■ Awarded “2012 INFO TECH TOP 100 in Asia” by Business Next magazine ■ Awarded 6th National Telecom Award 2012 – “Best Innovation in Mobile Video Technology” by CMAI Association of India ■ Mr. Ming-Kai Tsai, Chairman & CEO of MediaTek Inc, awarded as “Academician of Industrial Technology Research Institute (ITRI), R.O.C.” ■ Mr. Ming-Kai Tsai, Chairman & CEO of MediaTek Inc, awarded as “The Best-Performing CEOs in the World” by Harvard Business Review ■ MediaTek papers selected for presentation at 2012 Symposium on VLSI Circuits- the only fabless semiconductor company to have more than two papers selected for presentation at the 2012 Symposium ■ Published papers in ISSCC – “A 4-in-1 (WiFi/BT/FM/GPS) Connectivity SoC with Enhanced Co-Existence Performance in 65nm CMOS”, and “Near Independently Regulated 5-Output Single-Inductor DC-DC Buck Converter Delivering 1.2W/mm2 in 65 nm CMOS”
2011	<ul style="list-style-type: none"> ■ MT5395, highly-integrated 3D/Internet TV SoC, honored as “2011 The Most Innovative Product” by Science-based Industrial Park Administration (SIPA) ■ Awarded “2011 The Best Telecommunication Technology” by CMAI Association of India ■ Awarded “The Boldness in Business” by UK Financial Times ■ Awarded Top 10 Most Admired Companies in Taiwan” by Commonwealth Magazine for ninth continuous years ■ Published five research papers in the ISSCC – “An Injection-Locked Ring PLL with Self-Aligned Injection Window”, “A 70Mb/s - 100.5dBm Sensitivity 65nm IP MIMO Chipset for WiMAX Portable Router (Industrial Demo)”, “A Saw-Less GSM/GPRS/EDGE Receiver Embedded in a 65nm CMOS SOC (Industrial Demo)”, “A Receiver for WCDMA/EDGE Mobile Phones with Inductorless Front-End in 65nm CMOS”, and “A GPS/Galileo SOC with Adaptive in-Band Blocker Cancellation in 65nm CMOS” ■ Acquired Ralink Technology Corp.
2010	<ul style="list-style-type: none"> ■ MediaTek’s “WiMAX 802.16e device chipset project” awarded “Outstanding Contribution Award” by Ministry of Economic Affairs ■ Awarded “Top 50 Corporate Citizens” by Commonwealth Magazine for four continuous years ■ Awarded “Top 10 Most Admired Companies in Taiwan” by Commonwealth Magazine for eighth continuous years ■ Ranked Top 10 of “2010 Asia’s 200 most-admired companies” by The Wall Street Journal ■ Awarded #12 of “Global Top 100 High-Tech Companies” by Bloomberg Business Week ■ Awarded “2010 Corporate Social Responsibility Top 65” by Global Views Monthly ■ Awarded “Best Annual Report in Taiwan” and “Best One-on-One Meetings in Taiwan” by IR Magazine ■ Published research papers in the ISSCC – “23.6 A 1V 17.9dBm 60GHz Power Amplifier”
2009	<ul style="list-style-type: none"> ■ Awarded “Innovative Product Award” for the company’s High Sensitivity GPS SoC by Science-based Industrial Park Administration (SIPA) ■ Awarded “Asia Pacific Leadership Council Award” by Global Semiconductor Alliance (GSA) ■ Awarded “Best Investor Relations by a CEO Award” and “Best Investor Relations for a Corporate Transaction” by IR Magazine ■ Awarded “Best Corporate Governance in Taiwan and in Asia” by Asiamoney Magazine ■ Awarded the third annual “Top 50 Corporate Citizens” by Commonwealth Magazine ■ Published four research papers in the ISSCC, the most among Taiwan technology companies – “A Multi-Format Blu-ray Player SOC in 90nm CMOS”, “A 1.2V 2MHz BW 0.084mm2 CT ΔΣ ADC with -97.7dBc THD and 80dB DR Using Low-Latency DEM”, “A 250Mb/s-to-3.4Gb/s HDMI Receiver with Adaptive Loop Updating Frequencies and an Adaptive Equalizer”, and “A 110nm RFCMOS GPS SOC with 34mW -165dBm Tracking Sensitivity”
2008	<ul style="list-style-type: none"> ■ Awarded “Innovative Product Award” for the company’s Full-HD ATSC DTV SoC, by Science-based Industrial Park Administration (SIPA) ■ Launched Blu-ray DVD player chipset, GSM/GPRS/EDGE handset baseband chip, and next-generation ATSC and DVB-T digital TV

Year	Milestones
2008	<ul style="list-style-type: none"> single-chip ■ Awarded “Best Financially Managed Company” by Global Semiconductor Alliance (GSA) ■ Awarded “Corporate Social Responsibility Award” by Global View Magazine ■ Awarded the second annual “Top 50 Corporate Citizens” by CommonWealth Magazine ■ Published seven research papers in the ISSCC – “A 1V 11b 200MS/s Pipelined ADC with Digital Background Calibration in 65nm CMOS,” and “A Fractional Spur Free All-Digital PLL with Loop Gain Calibration and Phase Noise Cancellation for GSM/GPRS/EDGE”
2007	<ul style="list-style-type: none"> ■ Awarded “Distinguished Innovation Accomplishment” at the 15th ITA Award by the Ministry of Economic Affairs ■ Launched high-performance GPS signal receiver single-chip, first generation Bluetooth chip, and next-generation 120Hz video processing chip ■ Awarded “Best Financially Managed Company” by Global Semiconductor Alliance (GSA) ■ Awarded “The Asian Top 50” by Forbes Asia ■ Awarded “Corporate Social Responsibility Award” by Global View Magazine ■ Awarded the 12th annual “Most Admired Company in Taiwan” by CommonWealth Magazine ■ Awarded “Top 50 Corporate Citizens” by CommonWealth Magazine ■ Published research paper in the ISSCC – “RTL-based Clock recovery architecture with all-digital duty-cycle correction” ■ Published research paper in the IEEE IRPS (International Reliability Physics Symposium) “A New Device Reliability Evaluation Method for Overdrive Voltage Circuit Application.”
2006	<ul style="list-style-type: none"> ■ Awarded “Innovative Product Award” for the company’s Blu-ray DVD player chipset, by Science-based Industrial Park Administration (SIPA) ■ Launched GSM/GPRS/EDGE high-resolution camcorder chipset for mobile phones ■ Awarded “The Asian Top 50” by Forbes Asia ■ Published research paper in the ISSCC – “Fully Integrated CMOS SoC for 56/18/16 CD/DVD-dual/RAM Applications” ■ Awarded “Best Financially Managed Company” by Fabless Semiconductor Association (FSA, now renamed as GSA)
2005	<ul style="list-style-type: none"> ■ Awarded “Innovative Product Award” for the company’s multimedia GSM/GPRS mobile phone chipset, by Science-based Industrial Park Administration (SIPA) ■ Launched ATSC and DVB-T high-resolution LCD TV chipset ■ Awarded “The Asian Top 50” by Forbes Asia ■ Awarded the 10th annual “Most Admired Company in Taiwan” by CommonWealth Magazine ■ Published research papers in the ISSCC – “Multi-Format Read/Write SoC for 7x Blu-ray/16x DVD/56x CD” and “DLL-Based Clock Recovery in a PRML Channel”
2004	<ul style="list-style-type: none"> ■ Awarded “Innovative Product Award” for the company’s DVD-Recorder Backend single-chip, by Science-based Industrial Park Administration (SIPA) ■ Launched GSM/GPRS baseband handset chips ■ Ranked no.3 in the high-tech industry in Taiwan as part of Euromoney’s “Best Corporate Governance” survey in 2004 ■ Awarded the 9th annual “Most Admired Company in Taiwan” by CommonWealth Magazine
2003	<ul style="list-style-type: none"> ■ Awarded “Innovative Product Award” for the company’s 8x DVD-read/write (DVD-R/W) optical storage chipset, by Science-based Industrial Park Administration (SIPA) ■ Awarded “National Quality Award” by the Executive Yuan of Taiwan R.O.C. ■ Launched DVD-Dual chipset ■ Awarded Top High-Tech Company in Taiwan by “Business Next Magazine”
2002	<ul style="list-style-type: none"> ■ Awarded “Innovative Product Award” for the company’s high-speed COMBI optical storage chipset by Science-based Industrial Park Administration (SIPA) ■ Launched 48x CD-R/W chipset ■ Launched CD/DVD COMBI chipset
2001	<ul style="list-style-type: none"> ■ Awarded “Innovative Product Award” for the company’s high-integration DVD-Player chipset by Science-based Industrial Park Administration (SIPA) ■ Awarded the 9th annual MOEA Award for Industrial Technology Advancement ■ Listed on the Taiwan Stock Exchange (TSE) under the ticker of “2454”
2000	<ul style="list-style-type: none"> ■ Awarded “Innovative Product Award” for the company’s high-speed CD-R/RW chipset by Science-based Industrial Park

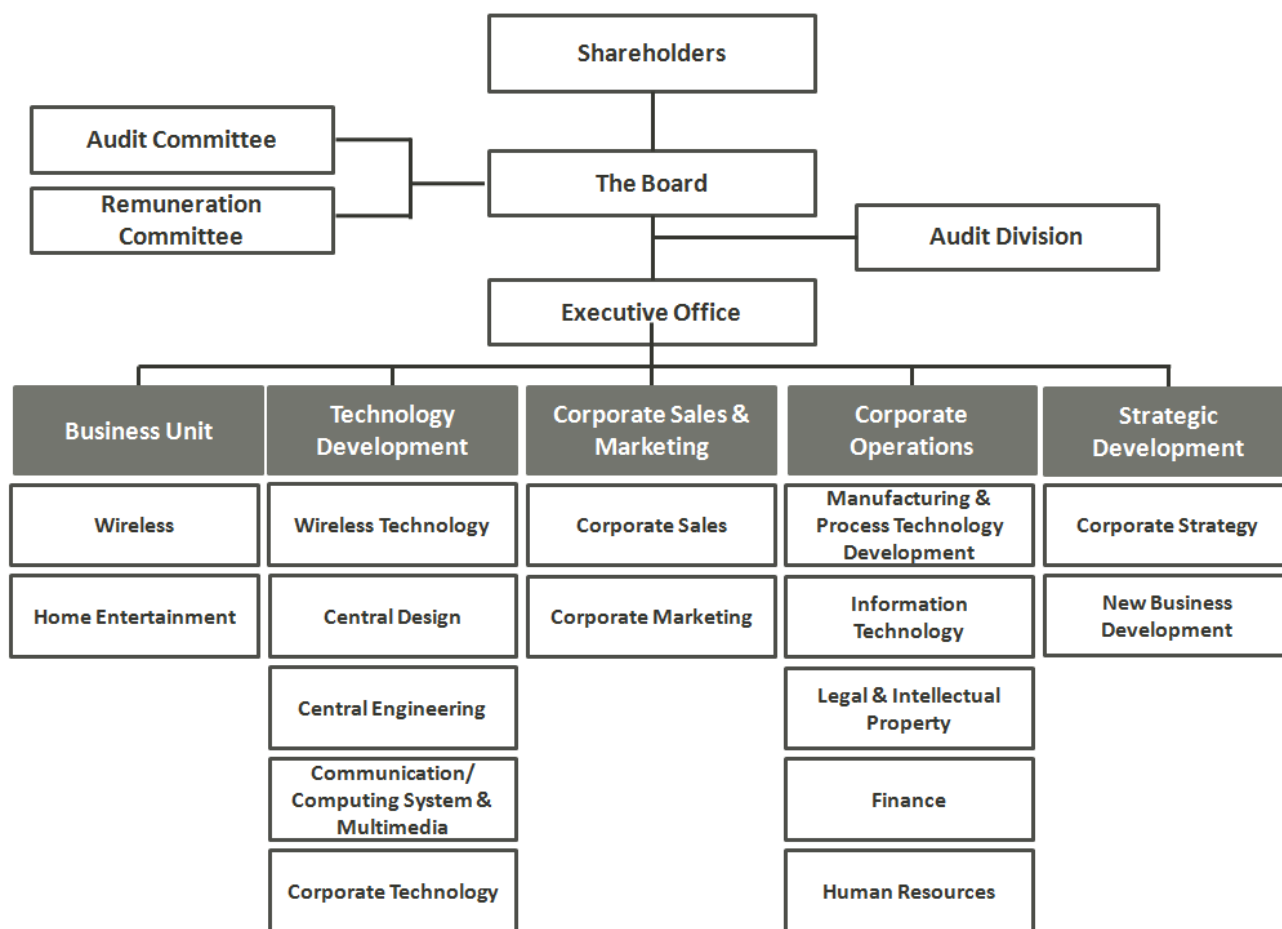
Year	Milestones
2000	Administration (SIPA) ■ Launched 12x DVD-ROM chipset
1999	■ Awarded “Innovative Product Award” for the company’s 12x DVD-ROM chipset by Science-based Industrial Park Administration (SIPA) ■ Launched 12-x DVD-ROM chipset
1998	■ Awarded “Innovative Product Award” for the company’s CD-ROM digital data/servo processor by Science-based Industrial Park Administration (SIPA) ■ Launched the highest performance 48x CD-ROM chipset in the world
1997	■ Founded on May 28 th

III. Corporate Governance

1. Organization

1.1. Organization Chart

As of April 30, 2017



1.2. Major Corporate Functions

Department	Functions
Wireless	Research, design and promotion of mobile communication chips
Home Entertainment	Research, design and promotion of digital consumer, digital TV and Internet of Things (IoT) chips
Wireless Technology	Wireless communication core technologies, system and software development
Central Design	Research and design of smart home technologies, connectivity technologies and wireless products chips
Central Engineering	Analog technology development for wireless communication field, including RF, audio/video, transmission interface, server and power as well as packaging and circuit board design; strategy, development and applications of high-performance processors; design services and development of technology platforms
Communication/ Computing System & Multimedia	Research and design of communication system architecture and multimedia technologies for video and imaging applications
Corporate Technology	Advanced technology development and industry/academy collaboration management
Corporate Sales	Product sales, customer development, client relationship management, and sales operation management etc.
Corporate Marketing	Corporate image and market promotion communication
Manufacturing & Process Technology Development	Pilot production and technology development of R&D products, quality and reliability management, service satisfaction management, production planning and procurement affairs. Advanced process development, pilot production of high-end products and technological development of components
Information Technology	Information system architecture, e-commerce strategy, information system development and operation
Legal & Intellectual Property	Corporate legal affairs, contracts, patents, and other intellectual property management
Finance	Finance and accounting, tax, treasury and asset management, strategic investments, and investor relations
Human Resources	Human resource management and organization development, general affairs, plant administration, and labor safety
Corporate Strategy	Corporate strategy analysis, development, and execution
New Business Development	Assessment and assurance of new market opportunities
Audit Division	Internal audit and operational procedure management

2. Directors

2.1. Information Regarding Board Members

As of April 30, 2017. Unit: Shares

Title/Name	Nationality or Registry	Gender	Date Elected	Term (Yrs)	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Selected Education & Experiences	Current Positions at MediaTek and Other Companies
						Shares	%	Shares	%	Shares	%	Shares	%		
Chairman Ming-Kai Tsai	R.O.C	Male	June 12, 2015	3	May 21, 1997	41,006,187	2.59%	41,006,187	2.59%	46,009,145	2.91%	-	-	- Master, Electrical Engineering, University of Cincinnati, USA - President of the 2nd Business Group, UMC	- CEO, MediaTek, Inc. - Chairman, Andes Technology
Vice Chairman Ching-Jiang Hsieh	R.O.C	Male	June 12, 2015	3	June 13, 2005	4,004,921	0.25%	4,004,921	0.25%	856,051	0.05%	-	-	- Master, Electrical Engineering, National Taiwan University - Engineer, Multimedia R&D Team, UMC	- President, MediaTek, Inc. - Director/Chairman, MediaTek's Affiliates
Director Cheng-Yaw Sun	R.O.C	Male	June 12, 2015	3	June 13, 2012	29,244	0.00%	29,244	0.00%	-	-	-	-	- B.S., Chung Yuan Christian University of Taiwan - Managing Director, HP China	None
Director Kenneth Kin	R.O.C	Male	June 12, 2015	3	June 13, 2012	-	-	-	-	-	-	-	-	- Ph.D., Nuclear Engineering and Applied Physics, Columbia University, USA - Senior VP, Worldwide Sales & Services, TSMC	- Independent director, eMemory Technology Inc., AzureWave Technologies Inc., Vanguard International Semiconductor Corp. and Hermes Microvision, Inc.
Independent Director Chung-Yu Wu	R.O.C	Male	June 12, 2015	3	June 13, 2012	-	-	236,000	0.01%	728,118	0.05%	-	-	- Ph.D., Electronics Engineering, National Chiao Tung University - President, National Chiao Tung University - Chairman of National Chair Professorship, Ministry of Education - Chair Professor, Electronics Engineering, National Chiao Tung University - Principal Investigator Biomedical Electronics Translational Research Center	- Independent director / remuneration committee member/audit committee member, Global Unichip Corp. and Leadtrend Technology Corp. -Independent director / remuneration committee member, Amazing Microelectronics Corp.
Independent Director Peng-Heng Chang	R.O.C / U.S.A	Male	June 12, 2015	3	June 13, 2012	-	-	-	-	-	-	-	-	- Ph.D., Materials Engineering, Purdue University - VP, Human Resources / Materials Management & Risk Management, TSMC	- President & CEO, Motech Industries Inc.
Independent Director Tain-Jy Chen (Note2)	R.O.C	Male	June 12, 2015	3	June 12, 2015	-	-	-	-	-	-	-	-	- Ph.D. in Economics, The Pennsylvania State University, University Park, U.S.A. - Professor, Dept. of Economics, National Taiwan University	None

Note1: No director has spouse or relative within two degrees of kinship working as the Company's manager.

Note2: The resignation of Independent Director, Mr. Tain-Jy Chen, took effect on May 14, 2016.

2.2. Professional qualifications and independence analysis of directors

Name/ Criteria	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience													Number of other public companies concurrently serving as an independent director
	An instructor or higher position in a department of commerce, law, finance, accounting, or other academic department related to the business needs of the company in a public or private junior college, college or university	A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialists who has passed a national examination and been awarded a certificate in a profession necessary for the business of the company	Have work experience in the area of commerce, law, finance, or accounting, or otherwise necessary for the business of the company	Independence Criteria (Note1)										
				1	2	3	4	5	6	7	8	9	10	
Ming-Kai Tsai			√		√		√	√	√	√	√	√	√	0
Ching-Jiang Hsieh			√			√	√	√	√	√	√	√	√	0
Cheng-Yaw Sun			√	√	√	√	√	√	√	√	√	√	√	0
Kenneth Kin	√		√	√	√	√	√	√	√	√	√	√	√	4
Chung-Yu Wu	√		√	√	√	√	√	√	√	√	√	√	√	3
Peng-Heng Chang			√	√	√	√	√	√	√	√	√	√	√	0
Tain-Jy Chen	(Note2)													

Note1: Directors or Supervisors with a "√" sign meets the following criteria:

(1). Not an employee of the Company or any of its affiliates.

(2). Not a director or supervisor of the Company's affiliates. Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary in which the Company holds in accordance of Taiwan government or local government laws.

(3). Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.

(4). Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.

(5). Not a director, supervisor, or employee of a corporate shareholder who directly holds 5% or more of the total number of outstanding shares of the Company or who holds shares ranking in the top five holdings.

(6). Not a director, supervisor, officer, or shareholder holding 5% or more of the shares, of a specified company or institution which has a financial or business relationship with the Company.

(7). Not a professional individual who is an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof. These restrictions do not apply to any member of the Remuneration Committee who exercises powers pursuant to Article 7 of the "Regulations Governing the Establishment and Exercise of Powers of Remuneration Committees of Companies whose Stock is Listed on the TWSE or Traded on the TPEX".

(8). Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.

(9). Not been a person of any conditions defined in Article 30 of the Company Law.

(10). Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

Note2: The resignation of Independent Director, Mr. Tain-Jy Chen, took effect on May 14, 2016.

2.3. Remunerations Paid to Directors

2.3.1. Remunerations Paid to Directors (Note1)

Unit: Shares / NT\$ thousands

Title/Name	Remunerations Paid to Directors				(A+B+C+D) as % of Net Income	Compensations Earned as Employee of MediaTek or of MediaTek Affiliates						(A+B+C+D+ E +F+G) as % of Net Income (Note3)	Other compensations from non- subsidiary affiliates	
	Salary (A)	Pension (B)	Remunerat ions (C)	Allowances (D)		Salary, Bonus, etc. (E)	Pension (F) (Note2)	Employee Compensation (G)						
								MediaTek Cash	Consolidated Entities Stock	MediaTek Cash	Consolidated Entities Stock			
Chairman Ming-Kai Tsai														
Vice Chairman Ching-Jiang Hsieh														
Director Cheng-Yaw Sun														
Director Kenneth Kin	3,200				0.20	166,514	108	108	-	-	-	-	0.90	0.90
Independent Director Chung-Yu Wu			42,661	375	0.20	166,514	108	108	-	-	-	-	0.90	0.90
Independent Director Peng-Heng Chang														
Independent Director Tain-Jy Chen (Note4)														
Other than disclosure in the above table, Directors remunerations earned by providing services (i.e. non-employee consulting services) to companies which are listed in financial reports in 2016: None.														

Note1: The policies, standards, combinations, decision procedures and performance linkage of remunerations paid to directors: The compensations are determined in accordance with the procedures set forth in MediaTek's Articles of Incorporation which authorized the Board to resolve the compensation based on industry levels. A resolution was passed at a Board meeting of the Company held on February 1, 2016 to amend the Articles of Incorporation of the Company. According to the amend Articles of Incorporation of the Company, no higher than 0.5% of profit of the current year is distributable as remuneration to directors.

Note2: Pensions funded/paid according to applicable law.

Note3: Remunerations of the Company and its consolidated entities paid to directors in 2015, including their employee compensation, totaled NT\$207,599 thousand, which was 0.80% of 2015 net profit.

Note4: The resignation of Independent Director, Mr. Tain-Jy Chen, took effect on May 14, 2016.

2.3.2. Remunerations Paid to Directors

	Compensation Paid to Directors (A+B+C+D)		Total Compensation Paid to Directors (A+B+C+D+E+F+G)	
	MediaTek	Consolidated Entities of MediaTek	MediaTek	Consolidated Entities of MediaTek
Less than NT\$2 million	-	-	-	-
NT\$2 million ~ \$5 million	Tain-Jy Chen		Tain-Jy Chen	
NT\$5 million ~ \$10 million	Ming-Kai Tsai, Ching-Jiang Hsieh, Cheng-Yaw Sun, Kenneth Kin, Peng-Heng Chang, Chung-Yu Wu		Cheng-Yaw Sun, Kenneth Kin, Peng-Heng Chang, Chung-Yu Wu	
NT\$10 million ~ \$15 million	-	-	-	-
NT\$15 million ~ \$30 million	-	-	-	-
NT\$30 million ~ \$50 million	-	-	-	-
NT\$50 million ~ \$100 million	-	-	Ming-Kai Tsai, Ching-Jiang Hsieh	
Above NT\$100 million	-	-	-	-
Total	7		7	

3. Management Team

3.1. Profiles of Key Managers

As of April 30, 2017. Unit: Shares

Title/Name	Nationality	Gender	Date Effective	Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Selected Education & Past Positions	Current Positions at Other Companies	Managers who are Spouses or Within Two Degrees of Kinship		
				Shares	%	Shares	%	Shares	%			Title	Name	Relation
Chairman & CEO Ming-Kai Tsai	R.O.C	Male	May 21, 1997	41,006,187	2.59%	46,009,145	2.91%	-	-	- Master, Electrical Engineering, University of Cincinnati, USA - President of the 2nd Business Group, UMC	- Chairman, Andes Technology Corp.			None
Vice Chairman & President Ching-Jiang Hsieh	R.O.C	Male	Sep. 15, 2005	4,004,921	0.25%	856,051	0.05%	-	-	- Master, Electrical Engineering, National Taiwan University - Engineer, Multimedia R&D Team, UMC	- Chairman/Director, MediaTek's affiliates			None
Executive Vice President & Co-COO Jeffrey Ju	R.O.C	Male	May 1, 2012	22,401	0.00%	28,744	0.00%	-	-	- Master, Electronics Engineering, National Chiao Tung University - Engineer, Winbond	None			None
Executive Vice President & Co-COO Joe Chen	R.O.C	Male	July 1, 2012	177,787	0.01%	30,414	0.00%	-	-	- Master, Electronics Engineering, National Chiao Tung University - Engineer, SiS Corp	None			None
Senior Vice President Kou-Hung Loh	R.O.C	Male	July 1, 2006	-	-	-	-	-	-	- Ph.D., Electrical Engineering, Texas A&M University - CEO and founder of Silicon Bridge	None			None
Senior Vice President Cheng-Te Chuang	R.O.C	Male	April 7, 2009	1,034,207	0.07%	316,077	0.02%	-	-	- Master, Electronics Engineering, National Chiao Tung University - Engineer, UMC	None			None
Senior Vice President & CTO Kevin Jou	R.O.C	Male	May 30, 2011	-	-	-	-	-	-	- Ph.D, Electrical Engineering, University of Southern California - Vice President, Qualcomm Inc.	- Director, MediaTek's affiliates			None
Senior Vice President & CFO & Spokesperson David Ku	R.O.C	Male	Jan. 1, 2011	37,842	0.00%	-	-	-	-	- MBA, University of Illinois at Urbana Champaign - Vice President of JPMorgan Investment bank	- Director, MediaTek's affiliates and invested companies			None
Vice President & General Counsel Wei-Fu Hsu (Note1)	R.O.C	Male	May 12, 2010	-	-	-	-	-	-	- Ph.D., Law School, University of Washington - Lawyer, Johns Day	None			None
Vice President Johan Erik Lodenius (Note1)	Sweden	Male	Dec. 20, 2012	-	-	-	-	-	-	- Bachelor, Electronics and Computer Technology, Lund Institute of Technology - Senior Vice President, Qualcomm Inc. - CEO, Coresonic AB	None			None
Vice President Jerry Yu	R.O.C	Male	Feb. 16, 2015	2	0.00%	-	-	-	-	- Master, Electrical Engineering, National Taiwan University - Technical Director, Afreecy Inc.	- Chairman/Director, MediaTek's affiliates			None

Title/Name	Nationality	Gender	Date Effective	Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Selected Education & Past Positions	Current Positions at Other Companies	Managers who are Spouses or Within Two Degrees of Kinship		
				Shares	%	Shares	%	Shares	%			Title	Name	Relation
Vice President Rolly Chang	R.O.C	Male	Aug. 1, 2015	83	0.00%	-	-	-	-	- Master, Communications Engineering, National Chiao Tung University - Technical Specialist, NCSIST	None			None
Vice President JC Hsu	R.O.C	Male	Aug. 1, 2015	58,746	0.00%	-	-	-	-	- Ph.D., Power Mechanical Engineering, National Tsing Hua University	- Chairman/Director, MediaTek's affiliates			None
Vice President Jasper Yang (Note2)	R.O.C	Male	Jun. 1, 2016	-	-	-	-	-	-	- Bachelor, Electrical Engineering, National Tsing Hua University - Shanghai Chief Representative, UMC	None			None
Vice President & CHRO Sherry Lin (Note2)	R.O.C	Female	Jun. 1, 2016	-	-	-	-	-	-	- Master, Industrial Relations and HRM, Rutgers University - HR Director, TSMC	None			None
Vice President & General Counsel David Su (Note2)	R.O.C	Male	Nov. 1, 2016	-	-	-	-	-	-	- SJD, University of Wisconsin Law School - Senior Program Director, TSMC	None			None
Vice President Uming Ko (Note2)	U.S.A	Male	Nov. 1, 2016	-	-	-	-	-	-	- PhD, Electrical Engineering, University of Texas - Senior Fellow, Texas Instruments Inc.	None			None

Note1: Vice President & General Counsel, Mr. Wei-Fu Hsu, officially withdrew from his position on July 1, 2016. Vice President, Mr. Johan Erik Lodenius, officially withdrew from his position on January 21, 2017.

Note2: Mr. Jasper Yang and Ms. Sherry Lin were appointed as Vice President on June 1, 2016. Mr. David Su and Mr. Uming Ko were appointed as Vice President on November 1, 2016.

3.2. Remunerations and Employee Bonus Paid to Key Managers (Note1)

Unit: Share / NT\$ thousands

Name / Title	Salary (A)		Pension (B) (Note2)		Bonus (C)		Employee Compensation (D)				(A+B+C+D) as % of Net Income (Note3)		Remuneration from non- subsidiary affiliates
	MediaTek	Consolidated Entities	MediaTek	Consolidated Entities	MediaTek	Consolidated Entities	MediaTek (Note3)		Consolidated Entities		MediaTek	Consolidated Entities	
							Cash	Stock	Cash	Stock			
Chairman & CEO – Ming-Kai Tsai													
Vice Chairman & President – Ching-Jiang Hsieh													
Executive Vice President & Co-COO – Jeffrey Ju													
Executive Vice President & Co-COO – Joe Chen													
Senior Vice President – Kou-Hung Loh													
Senior Vice President – Cheng-Te Chuang													
Senior Vice President & CTO – Kevin Jou													
Senior Vice President & CFO & Spokesperson – David Ku													
Vice President & General Counsel – Wei-Fu Hsu (Note4)	39,252	68,305	1,311	3,681	632,701	762,577	-	-	-	-	2.84	3.52	None
Vice President – Johan Erik Lodenius (Note5)													
Vice President – Jerry Yu													
Vice President – Rolly Chang													
Vice President – JC Hsu													
Vice President – Jasper Yang (Note6)													
Vice President – Sherry Lin (Note6)													
Vice President – David Su (Note7)													
Vice President – Uming Ko (Note7)													

Note1: The policies, standards, combinations, decision procedures and performance linkage of remunerations paid to managers: The compensations are determined in accordance with managers' position, responsibility, contribution, performance and uncertainties and risks of the Company.

Note2: Pensions funded/paid according to applicable law.

Note3: Remunerations and bonus of MediaTek and its consolidated entities paid to key managers in 2015 were NT\$549,325 thousand and NT\$660,808 thousand respectively which were 2.12% and 2.55% of 2015 net income, respectively.

Note4: Vice President & General Counsel, Mr. Wei-Fu Hsu, officially withdrew from his position on July 1, 2016.

Note5: Vice President, Mr. Johan Erik Lodenius, officially withdrew from his position on January 21, 2017.

Note6: Mr. Jasper Yang and Ms. Sherry Lin were appointed as Vice President on June 1, 2016.

Note7: Mr. David Su and Mr. Uming Ko were appointed as Vice President on November 1, 2016.

3.3. Key Managers Remunerations Scale

Remuneration scale for individual key managers	Compensation Paid to Key Managers	
	MediaTek	Consolidated Entities of MediaTek
Less than NT\$2 million	-	-
NT\$2 million ~ \$5 million	-	-
NT\$5 million ~ \$10 million		David Su
NT\$10 million ~ \$15 million	-	-
NT\$15 million ~ \$30 million		Wei-Fu Hsu
NT\$30 million ~ \$50 million	Kevin Jou, Johan Erik Lodenius, Jerry Yu, Rolly Chang, JC Hsu, Jasper Yang, Sherry Lin, Uming Ko	
NT\$50 million ~ \$100 million	Ming-Kai Tsai, Ching-Jiang Hsieh, Jeffrey Ju, Joe Chen, Cheng-Te Chuang, Kuo-Hung Loh, David Ku,	
Above NT\$100 million	-	-
Total		17

3.4. Employee Compensation Paid to Key Managers:

None.

4. Corporate Governance Report

4.1. Operation of the Board

4.1.1 Board of Directors' Meeting Status

The Company's shareholders elected the 7th Board of Directors in Annual General Meeting on June 12, 2015, effective immediately. (From June 12, 2015 to June 11, 2018)

The 7th Board of Directors held 7 sessions in 2016. The attendance of the Directors is shown in the following table:

Title/Name	Attend in Person	By Proxy	Attendance Rate in Person (%)	Note
Chairman: Ming-Kai Tsai	7	0	100%	None
Vice Chairman: Ching-Jiang Hsieh	7	0	100%	None
Director: Cheng-Yaw Sun	7	0	100%	None
Director: Kenneth Kin	7	0	100%	None
Independent Director: Chung-Yu Wu	7	0	100%	None
Independent Director: Peng-Heng Chang	7	0	100%	None
Independent Director: Tain-Jy Chen	2	2	50%	(Note)

Note: The resignation of Independent Director, Mr. Tain-Jy Chen, took effect on May 14, 2016.

4.1.2. Other Required Notes for the Board Meetings:

A. Items listed in Article 14-3 in Securities and Exchange Act or Board resolutions independent directors have dissenting opinions or qualified opinions with notes in minutes of the directors meetings:

a. Items listed in Article 14-3

Date	Meeting	Resolution	Any Independent Director Had a Dissenting Opinion or Qualified Opinion
Feb 1, 2016	The 5 th meeting of the 7 th Board	Acquisition of real estate Disposal of assets and participation in subsidiary's capital increase Amendment to the "Article of Incorporation"	None
Mar 17, 2016	The 6 th meeting of the 7 th Board	Personnel Change of Internal Audit Officer	
Apr 29, 2016	The 7 th meeting of the 7 th Board	Proposal of the issuance of restricted stock awards	
May 13, 2016	The 8 th meeting of the 7 th Board	Subsidiary Ralink Technology (Samoa) Corp. – the sale of shareholding of AutoChips Inc. Sign a Letter of Intent with NavInfo Co., Ltd. Sign a Strategic Cooperation Agreement with NavInfo Co., Ltd. Subsidiary Gaintech Co. Limited – the investment in Yuan Ke (Pingtan) Investment Fund Limited Partnership	
Aug 3, 2016	The 9 th meeting of the 7 th Board	Construction of the new building on rented land	
Oct 28, 2016	The 11 st meeting of the 7 th Board	2016 CPA compensation	

b. There were no other written or otherwise recorded resolutions on which an independent director had a dissenting opinion or qualified opinion in 2016.

B. Execution status for Article 206 of the Company Act regarding matters bearing on the personal interests of directors: None.

C. Goals to enhance the Board's operations:

- a. Establishment of the Remuneration Committee and Audit Committee: the Company established the Remuneration Committee on August 24, 2011, elected Independent Directors in 2015 AGM and established the Audit Committee to enhance the Board's operation.
- b. Corporate governance operations enhancement: the Company's Board approved "Ethical Corporate Management Best Practice Principles", "Corporate Governance Best Practice Principles" and "Corporate Social Responsibility Best Practice Principles" on October 30, 2015. The Board approved "Board of Directors Self-Assessment of Performance" on October 28, 2016 and the Board completed performance evaluation by self-assessment in 2016.
- c. Information transparency improvement: the Company's Board approved "Procedures for Internal Material Information" on December 29, 2011.

4.2. Operation of Audit Committee

4.2.1 Audit Committee Meeting

The Audit Committee held 6 sessions in 2016. The attendance of the Independent Directors is shown in the following table:

Title/Name	Attend in Person	By Proxy	Attendance Rate in Person (%)	Note
Independent Director: Chung-Yu Wu	6	0	100%	None
Independent Director: Peng-Heng Chang	6	0	100%	None
Independent Director: Tain-Jy Chen	2	2	50%	(Note)

Note: The resignation of Independent Director, Mr. Tain-Jy Chen, took effect on May 14, 2016.

4.2.2. Other Required Notes for Audit Committee Meeting

- A. Any action regulated by Securities and Exchange Act 14-5, or any resolution not approved by the Audit Committee but approved by two thirds or more of all directors instead:
 - a. Items listed in Article 14-5

Date	Meeting	Resolution	Any Independent Director Had a Dissenting Opinion or Qualified Opinion
Feb 1, 2016	The 4 th meeting of the 1 st Committee	Acquisition of real estate Disposal of assets and participation in subsidiary's capital increase	None
Mar 17, 2016	The 5 th meeting of the 1 st Committee	2015 operation report 2015 internal control statement Personnel Change of Internal Audit Officer	
Apr 29, 2016	The 6 th meeting of the 1 st Committee	Proposal of the issuance of restricted stock awards	
May 13, 2016	The 7 th meeting of the 1 st Committee	Subsidiary Ralink Technology (Samoa) Corp. – the sale of shareholding of AutoChips Inc. Sign a Letter of Intent with NavInfo Co., Ltd. Sign a Strategic Cooperation Agreement with NavInfo Co., Ltd. Subsidiary Gaintech Co. Limited – the investment in Yuan Ke (Pingtan) Investment Fund Limited Partnership	
Aug 3, 2016	The 8 th meeting of the 1 st Committee	2016 second quarter financials Construction of the new building on rented land	
Oct 28, 2016	The 9 th meeting of the 1 st Committee	2016 CPA compensation	

b. There was no other resolution which was not approved by the Audit Committee but was approved by two thirds or more of all directors in 2016.

B. Any recusal of Independent Directors due to conflicts of interests: None.

C. Communications of Independent Directors with internal auditors and CPAs:

- a. Independent Directors and internal auditors regularly communicate with each other among the meetings of Audit Committee and the communication functioned well. Internal auditors present the execution and improvement of audit plan among the meetings. Also, they communicate and exchange ideas to assess internal control effectiveness.
- b. Independent Directors and CPAs regularly communicate with each other among the meetings of Audit Committee. CPAs report the Company's financial results and fully discuss with Independent Directors on the issues related to financials, taxes, internal control, etc.

4.3. Corporate Governance Implementation as Required by the Taiwan Financial Supervisory Commission

Assessment Item	Implementation Status		Summary Description	Reason for Non-implementation
	Yes	No		
1. Does the company establish and disclose the Corporate Governance Best-Practice Principles based on “Corporate Governance Best-Practice Principles for TWSE/ Listed Companies”?	✓		The Company has set up functional committees under the Board, including the Remuneration Committee and the Audit Committee. All the directors of the Company are world class professionals coming from industry and academic circles, and the Board has established a comprehensive corporate governance framework. The Board approved “Corporate Governance Best Practice Principles” on Oct. 30 th , 2015. The Company also established a complete internal control system based on corporate governance best-practice principles, and fairly treats shareholders while protects their rights.	None
2. Equity structure and shareholders’ equity (1). Does the company establish an internal operating procedure to deal with shareholders’ suggestions, doubts, disputes and litigations, and implement based on the procedure?	✓		The Company has designated relevant departments, such as Investor Relations, Public Relations, Legal, etc. to handle shareholders’ suggestions or disputes.	None
(2). Does the company possess the list of its major shareholders as well as the ultimate owners of those shares?	✓		The Company tracks the shareholdings of directors, officers and shareholders’ holding more than 10% of the outstanding MediaTek shares.	None
(3). Does the company establish and execute the risk management and firewall system within its conglomerate structure?	✓		When designing the structure of its subsidiaries, the Company has implemented a firewall mechanism. The Company and its subsidiaries have established appropriate internal control systems.	None
(4). Does the company establish internal rules against insiders trading with undisclosed information?	✓		The Company published “Standards of Behavior Regarding Insider Trading” in 2008, strictly prohibiting staffs and managers from insider trading with material nonpublic information. Violators are subject to punishment, investigation, and legal liability.	None
3. Composition and Responsibilities of the Board of Directors (1). Does the Board develop and implement a diversified policy for the composition of its members?	✓		The Board members of the Company have diversified backgrounds, such as engineering and finance, in accordance with a policy of diversification.	None
(2). Does the company voluntarily establish other functional committees in addition to the Remuneration Committee and the Audit Committee?	✓		The Company’s executives formed Corporate Social Responsibility Committee, which holds quarterly Committee meetings regularly to ensure that the process and direction of execution plan can meet the expectation of the Board and society.	None
(3). Does the company establish a standard to measure the performance of the Board, and implement it annually?	✓		The Board approved “Board of Directors Self-Assessment of Performance” on October 28, 2016 and the Board completed performance evaluation by self-assessment in 2016. The assessment result was “Excellence”.	None
(4). Does the company regularly evaluate the independence of CPAs?	✓		The Company followed “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies” and “Certified Public Accountant Act” to regularly evaluate the independence and adequacy of external auditors and to ensure the audit partner rotates every seven years.	None
4. Does the Company established an exclusively (or concurrently) corporate governance unit or personnel to be in charge of corporate governance affairs (including but not limited to furnish information required for business execution by directors, handle matters relating to board meetings and shareholders’ meetings according to laws, handle corporate registration and amendment registration, produce (or record?) minutes of board meetings and shareholders meetings, etc.	✓		The Chairman appointed the current CFO as the Company’s Board secretariat. Finance Department is in charge of assisting in related affairs, including furnishing with information required for business decisions by Directors, handling matters relating to Board meetings, Audit Committee meetings and Shareholders’ meetings and recording minutes of relevant meetings, etc. Legal & Intellectual Property Department is in charge of relevant document review. Finance Department is responsible for handling corporate registration and amendment registration.	None
5. Does the company establish a communication channel and build a designated section on its website for stakeholders, as well as handle all the issues they care for in terms of corporate social responsibilities?	✓		The Company has established a Corporate Social Responsibility section with contact information of responsible person on the Company website. The Company has also established a Stakeholder section to timely respond issues which stakeholders care about.	None

Assessment Item	Implementation Status		Reason for Non-implementation
	Yes	No	
6. Does the company appoint a professional shareholder service agency to deal with shareholder affairs?	✓		The Company has appointed CTBC Bank's Transfer Agency Department to perform services required in regards to the general meeting.
7. Information Disclosure			
(1). Does the company have a corporate website to disclose both financial standings and the status of corporate governance?	✓		1. The Company discloses financial information and corporate governance items on its company website: www.mediatek.com 2. The Company has designated appropriate persons to handle information collection and disclosure. Contact person: Jessie Wang, TEL: +886-(0)3-567-0766 ext.23447 / email: ir@mediatek.com
(2). Does the company have other information disclosure channels (e.g. building an English website, appointing designated people to handle information collection and disclosure, creating a spokesman system, webcasting investor conferences)?	✓		3. The Company has established a spokesperson policy. Spokesperson: David Ku; Deputy Spokesperson: Jane Chen. 4. The Company provides investor conferences webcasts and presentation materials on its website in a timely manner. 5. The Company discloses real-time information to shareholders and stakeholders on both Company website and MOPS website.
8. Is there any other important information to facilitate a better understanding of the company's corporate governance practices (e.g., including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' and supervisors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors and supervisors)?	✓		1. The Company discloses its financial statements and corporate governance information on its Chinese and English websites (www.mediatek.com). The Company aims to provide free access to transparent information for employees, investors, suppliers and stakeholders. 2. The Company's Directors are experts in their professional specialties. The Company provides new regulation updates that require the attention of Directors. The executive team of the Company also reports to the Board periodically. Director training records can be found on the MOPS website. 3. The Company has already instituted internal control systems as required by law and has properly implemented the system. The Company also conducts risk assessments on banks, customers, and suppliers in order to reduce credit risks. 4. All Directors of the Company avoid issues when there are conflicts of interests. 5. The Company maintains D&O insurance for its Directors and key officers.
9. The improvement status for the result of Corporate Governance Evaluation announced by Taiwan Stock Exchange			
The Company was ranked in top 5% in the 3 rd Corporate Governance Evaluation. The implementation status regarding below two non-scoring items:			
1. Regularly assess the independence of external auditors and disclose the evaluation procedure in annual report: The Company regularly assesses the independence of external audits and discloses the assessment result in session of "Information Regarding MediaTek's Independent Auditors" in annual report this year.			
2. Whether the Chairman is also the CEO: The Company's Chairman actively acts as the Company's CEO. In order to strengthen corporate governance, the Board approved to appoint Dr. Rick Tsai as co-CEO on March 22 nd , 2017.			

4.4. Operation of the Company's Remuneration Committee

4.4.1. Responsibilities of the Company's Remuneration Committee:

The Remuneration Committee aims at establishing and regularly reviewing the performance evaluation procedure for directors and managers as well as establishing compensation policy, system, standard and structure and regularly reviewing the compensation of directors and managers.

4.4.2. Composition of the Company's remuneration committee:

The Company's remuneration committee was established on August 24, 2011. According to related regulations of the Securities and Futures Bureau, Financial Supervisory Commission, the professional qualification and independence criteria of the 3rd Remuneration Committee's members are below:

Criteria	Meet the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience				Criteria (Note)								Number of other public companies concurrently serving as an independent director	
	An instructor or higher position in a department of commerce, law, finance, accounting, or other academic department related to the business needs of the company in a public or private junior college, college or university	A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialists who has passed a national examination and been awarded a certificate in a profession necessary for the business of the company	Have work experience in the area of commerce, law, finance, or accounting, or otherwise necessary for the business of the company		1	2	3	4	5	6	7	8		
Independent Director Peng-Heng Chang			✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Independent Director Chung-Yu Wu	✓		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	3
Other Ji-Ren Lee	✓		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	4

Note: Directors or Supervisors with a "✓" sign meet the following criteria:

- Not an employee of the Company or any of its affiliates.
- Not a director or supervisor of the Company or any of its affiliates. Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary in which the Company holds, directly or indirectly, more than 50% of the voting shares.
- Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
- Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
- Not a director, supervisor, or employee of a corporate shareholder who directly holds 5% or more of the total number of outstanding shares of the Company or who holds shares ranking in the top five holdings.
- Not a director, supervisor, officer, or shareholder holding 5% or more of the shares, of a specified company or institution which has a financial or business relationship with the Company.
- Not a professional individual who is an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof.
- Not been a person of any conditions defined in Article 30 of the Company Law.

4.4.3. Remuneration Committee Meeting Status

The tenure of the Company's 3rd remuneration committee is from June 23, 2015 to June 11, 2018. The convener, Mr. Chung-Yu Wu held five sessions in 2016 and the attendance of members is shown in the following table:

Title	Name	Attend in Person	Attendance Rate in Person (%)	Note
Convener	Peng-Heng Chang	5	100%	None
Member	Chung-Yu Wu	5	100%	None
Member	Ji-Ren Lee	5	100%	None

4.4.4. Other Required Notes for Remuneration Committee:

- In cases the Board doesn't adopt or revise Remuneration Committee's proposals, the Company shall list date/number of the Board meeting, agenda, the Board's resolution and the Company's response to Remuneration Committee's proposal: None.

B. In cases Remuneration Committee members have dissenting opinions or qualified opinions against the resolution and recorded with notes in paper, the Company shall list date, number of the Remuneration Committee meeting, agenda, all members' opinion and the follow-up of the members' opinion: None.

4.5. Status of Fulfilling Corporate Social Responsibility

Assessment Item	Implementation Status		Reason for Non-implementation
	Yes	No	
1. Implementation of corporate governance			
(1). Does the company declare its corporate social responsibility policy and examine the results of the implementation?	✓		The Company has set up a “corporate social responsibility policy” in written form. The company’s implementation of corporate governance, environmental sustainability, social responsibility and information disclosure has been in accordance with corporate social responsibility policy principles. In addition, the Company set up internal performance targets and regularly reviews the implement results. Please refer to “Section 6, Social Responsibility” for more details.
(2). Does the company provide educational training on corporate social responsibility on a regular basis?	✓		The Company arranges external and internal corporate social responsibility trainings for working team and core personnel in charge of corporate social responsibility implementation. Frequency of trainings is subject to team’s turnover and frequency of standard updates.
(3). Does the company establish exclusively (or concurrently) dedicated first-line managers authorized by the board to be in charge of proposing the corporate social responsibility policies and reporting to the board?	✓		The Company established a Corporate Social Responsibility Committee in 2014, led by Senior Vice President & CFO & Spokesperson, Mr. David Ku. Following sustainable development as the highest guiding principle, the Company focuses on three aspects, economics, society and environment, to instruct six teams including corporate governance, innovative technology, workforce environment, natural environment, partnership and social welfare responsible for the implementation of each project. The related departments’ managers are appointed as team leaders, responsible for coordinating all matters, including setting up the annual sustainable development objective, communication between management and each department, allocation of internal resources, controlling project progress, audit certification, awards application, and other tasks. The Company holds regular discussion meetings each quarter to report the execution plans of the current year focusing on economic, social and environmental aspects, while review the implementation results of the previous year. Therefore, the Company can improve continually in order to achieve the highest principle of sustainable development.
(4). Does the company declare a reasonable salary remuneration policy, and integrate the employee performance appraisal system with its corporate social responsibility policy, as well as establish an effective reward and disciplinary system?	✓		The Company reviews the remuneration standard in accordance to market rates and stipulates a reasonable remuneration policy according to macroeconomic indices to ensure a competitive level of remuneration. Also, by offering a platform of two-way communication though regular performance evaluations and future plan developments, we achieve individual and organization development by rewarding based on performance and encourage employees to grow with the company.
2. Sustainable Environment Development			
(1). Does the company endeavor to utilize all resources more efficiently and use renewable materials which have low impact on the environment?	✓		The process to optimize utilization of raw materials: Waste management and recycling: in order to manage waste efficiently and maximize the benefits of recycling, the Company prioritizes waste reduction, classification for reuse, adherence to recycling and reutilization. The Company also handles and disposes waste properly and continually improves waste storage, transport and processes and evaluates the impact on the environment. We choose only qualified partners for waste disposal and recycling, and also audit the waste processes randomly to ensure the legal disposal of our waste and fulfill our responsibility in waste management supervision.
(2). Does the company establish proper environmental management systems based on the characteristics of their industries?	✓		Sustain our efforts to maintain the Environmental Management System (ISO-14000) and Occupational Health and Safety Management System (OHSAS-18000). Dedicated personnel are assigned to take responsibility for environmental management and promotion of environmental principles.
(3). Does the company monitor the impact of climate change on its operations and conduct greenhouse gas inspections, as well as establish company strategies for energy conservation and carbon reduction?	✓		The Company implements the greenhouse gas examination and makes continuous efforts to reduce CO2 creation and save energy including the reducing, reusing and recycling resources. Dedicated personnel are assigned to take responsibility for environmental management. Please see “Section 6, Social Responsibility” section in this report
3. Preserving Public Welfare			
(1). Does the company formulate appropriate management policies and procedures according to relevant regulations and the International Bill of Human Rights?	✓		The Company abides by the rules, policies, and procedures of the Labor Standards Act and international human rights agreements to protect the legitimate rights and interests of employees.

Assessment Item	Implementation Status		Summary Description	Reason for Non-implementation
	Yes	No		
(2). Has the company set up an employee hotline or grievance mechanism to handle complaints with appropriate solutions?	✓		The Company established an employee suggestion mailbox and assigned dedicated personnel to solve employee issues. We adhered to “Complaint and Punishment of Sexual Harassment in the Workplace”, to establish complaint and punishment measures. For institutional sexual harassment, a dedicated mailbox was set up and employee suggestions can directly go to Head of HR as well as Vice-Chairman and President.	None
(3). Does the company provide a healthy and safe working environment and organize training on health and safety for its employees on a regular basis?	✓		The Company aims to offer a safe and healthy working environment and promote a health life. The Company also regularly holds safety and health training sessions to employees.	None
(4). Does the company setup a communication channel with employees on a regular basis, as well as reasonably inform employees of any significant changes in operations that may have an impact on them?	✓		Labor Management conferences are convened periodically to ensure labor harmony. Employee suggestion mailbox was set up and dedicated personnel were assigned to solve employee issues. If significant impacts to operating activities are expected, it will be announced early to employees.	None
(5). Does the company provide its employees with career development and training sessions?	✓		The Company offers a comprehensive career development training program, a challenging learning environment to develop employee’s potential and continue to c in the organization’s capabilities.	None
(6). Does the company establish any consumer protection mechanisms and appealing procedures regarding research development, purchasing, producing, operating and service?	✓		The Company established standards of the employee ethical behaviors and a reporting system. For further information, please refer to the company’s web page at https://www.mediatek.com/about/corporate-social-responsibility	None
(7). Does the company advertise and label its goods and services according to relevant regulations and international standards?	✓		Products of the Company comply with requirements of relevant regulations and international standards.	None
(8). Does the company evaluate the records of suppliers’ impact on the environment and society before taking on business partnerships?	✓		Past record of any harming behavior on environment and the society is one of the key items in vendors’ qualification evaluation process.	None
(9). Do the contracts between the company and its major suppliers include termination clauses which come into force once the suppliers breach the corporate social responsibility policy and cause appreciable impact on the environment and society?	✓		If a supplier acts against the standards of the Company, rights to terminate cooperation will be carried out.	None
4. Enhancing Information Disclosure Does the company disclose relevant and reliable information regarding its corporate social responsibility on its website and the Market Observation Post System (MOPS)?	✓		The Company discloses CSR information on its company website or on the TSE “MOPS”. The Company publishes CSR report from 2015 according to the GRI standard on an annual basis.	None
5. If the Company has established the corporate social responsibility principles based on “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies”, please describe any discrepancy between the Principles and their implementation: The Company has set up a corporate social responsibility policy in written form and the practices are in accordance with “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies”.				
6. Other important information to facilitate better understanding of the company’s corporate social responsibility practices : Please refer to the company’s web page at http https://www.mediatek.com/about/corporate-social-responsibility .				
7. A clear statement shall be made below if the corporate social responsibility reports were verified by external certification institutions: The Company’s CSR report follows the GRI standard and adopts AA1000 AS (2008) for examination purposes. In addition, The Company was awarded “Taiwan Top 50 Corporate Sustainability Awards – Electronics Industry” Gold Medal by Taiwan Institute for sustainable Energy (TAISE).				

4.6. Ethical Corporate Management

Assessment Item	Implementation Status		Reason for Non-implementation	
	Yes	No		Summary Description
1. Establishment of ethical corporate management policies and programs				
(1). Does the company declare its ethical corporate management policies and procedures in its guidelines and external documents, as well as the commitment from its board to implement the policies?	✓		The Company strictly follows the six core values: integrity, conviction inspired by deep thinking, customer focus, constant renewal, innovation and inclusiveness as the guidance of business operation and sets up various internal guidelines based on the core values as well as all related laws and standards. Also, The Company has set up many internal guidelines such as “Code of Conduct”, “Code of Ethics” and “Misconduct Management Principles” to ensure ethical corporate management and compliance.	None
(2). Does the company establish policies to prevent unethical conduct with clear statements regarding relevant procedures, guidelines of conduct, punishment for violation, rules of appeal, and the commitment to implement the policies?	✓		The Company has the following corporate governance guidelines and regulations in place: (1) Rules and Procedures of Board of Directors’ Meeting (2) Rules for Election of Directors (3) Audit Committee Charter (4) Ethical Corporate Management Best Practice Principles (5) Code of Conduct (6) Code of Ethics (7) Misconduct Management Principles The above (1)-(4) guidelines and regulations are available on the Company website: https://www.mediatek.com/investor-relations/corporate-governance	None
(3). Does the company establish appropriate precautions against high-potential unethical conducts or listed activities stated in Article 2, Paragraph 7 of the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies?	✓		The Company prevents potential misconduct by internal regulations such as “Ethical Corporate Management Best Practice Principles”, “Code of Conduct”, “Code of Ethics” and “Misconduct Management Principles”. The regulations include areas such as conflicts of interest avoidance, anti-corruption, anti-bribery, intellectual property protection, unfair competition avoidance, etc.	None
2. Fulfill operations integrity policy				
(1). Does the company evaluate business partners’ ethical records and include ethics-related clauses in business contracts?	✓		Maximizing shareholders and employees’ values has been the Company’s major management principle. The Company follows the Company Act, the Securities and Exchange Act, Business Entity Accounting Act, Political Donations Act, Law Against Accepting Bribes Act, Government Procurement Act, Act on Recusal of Public Servants due to Conflicts of Interest and other relevant regulations for listed companies. The Company also conducts due diligence on counterparties’ integrity records and includes ethical principles in relevant contracts before trading with upstream and downstream companies to minimize the risks.	None
(2). Does the company establish an exclusively (or concurrently) dedicated unit supervised by the Board to be in charge of corporate integrity?	✓		The Company’s “Ethical Corporate Management Best Practice Principles” is promoted by legal & intellectual property department who regularly reports to Board on execution actions to ensure the ethical corporate management implement.	None
(3). Does the company establish policies to prevent conflicts of interest and provide appropriate communication channels, and implement it?	✓		“Code of Conduct” and “Code of Ethics” clearly define the policies to prevent conflicts of interest. In addition, the Company also designates a contact window for each department to consult, communicate or resolve relevant issues in order to achieve results rapidly and effectively.	None
(4). Has the company established effective systems for both accounting and internal control to facilitate ethical corporate management, and are they audited by either internal auditors or CPAs on a regular basis?	✓		The company has built up an effective accounting system and internal control systems that is constantly under review and evaluation to ensure the system’s design and execution remains effective. Internal auditors audit the system referred in the prior paragraph.	None
(5). Does the company regularly hold internal and external educational trainings on operational integrity?	✓		The Company regularly holds operational integrity-related educational training courses covering the topics of misconduct management, intellectual property information management, insider trading prevention, trade secrete infringement prevention, internal and customer communication principles, etc.	None

Assessment Item	Implementation Status		Reason for Non-implementation
	Yes	No	
3. Operation of the integrity channel (1). Does the company establish both a reward/punishment system and an integrity hotline? Can the accused be reached by an appropriate person for follow-up?	✓		The Company established the Reporting Procedure and the reporting unethical behavior system. Employees can use this system on external company website to report unethical and improper behaviors and the Company will designate senior management to handle the case.
(2). Does the company establish standard operating procedures for confidential reporting on investigating accusation cases?	✓		The Company established the SOP and relevant confidentiality mechanisms in “Misconduct Management Principles”, “Code of Ethics” and “Code of Conduct”.
(3). Does the company provide proper whistleblower protection?	✓		The Company established precautions in order to protect whistleblowers in “Misconduct Management Principles”.
4. Does the company disclose its ethical corporate management policies and the results of its implementation on the company’s website and MOPS?	✓		The Company discloses and advocates “Ethical Corporate Management Best Practice Principles” on the Company’s internal website. The Company also discloses “Ethical Corporate Management Best Practice Principles” and its practices on the Company’s external website. In addition, the annual report which including relevant information about ethical corporate management on TSEC “MOPS” website.
5. If the company has established the ethical corporate management policies based on “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies”, please describe any discrepancy between the policies and their implementation.	The Company has set up an ethical corporate management policy and the practices are in accordance with Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies. Please refer to the corporate governance section for more details.		
6. Other important information to facilitate a better understanding of the company’s ethical corporate management policies (e.g., review and amend its policies).	Please refer to the corporate governance section for more details.		

4.7. Corporate Governance Guidelines and Regulations

4.7.1 The company has the following corporate governance guidelines and regulations in place:

- (1) Rules and Procedures of Shareholders' Meeting
- (2) Rules and Procedures of Board of Directors' Meeting
- (3) Rules for Election of Directors
- (4) Procedures Governing the Acquisition or Disposition of Assets
- (5) Operating Procedures of Endorsement and Guarantee
- (6) Operating Procedures of Outward Loans to Others
- (7) Procedures of Internal Material Information
- (8) Remuneration Committee Charter
- (9) Audit Committee Charter
- (10) Ethical Corporate Management Best Practice Principles
- (11) Corporate Social Responsibility Best Practice Principles
- (12) Corporate Governance Best Practice Principles
- (13) Articles of Incorporation

4.7.2. More detailed information on corporate governance guidelines and regulations:

Please refer to the Company's website at www.mediatek.com

4.8. Other Important Corporate Governance Information

The Company continues to add more resources to enhance corporate governance including adding corporate governance session and attaching corporate governance guidelines and regulations for download on the company website, disclosing material information in a timely matter and host regular investor conferences.

4.8.1 Directors Profession Enhancement Status

Title/Name	Date	Host by	Training / Speech title	Hours
Chairman Ming-Kai Tsai	Jun 24, 2016	Taiwan Corporate Governance Association	Corporate Governance and Securities Regulations; Revised Merger and Acquisition Law Applications and Taxation Analysis	6
Vice Chairman Ching-Jiang Hsieh	Jun 24, 2016	Taiwan Corporate Governance Association	Corporate Governance and Securities Regulations; Revised Merger and Acquisition Law Applications and Taxation Analysis	6
Director Cheng-Yaw Sun	Jun 24, 2016	Taiwan Corporate Governance Association	Corporate Governance and Securities Regulations; Revised Merger and Acquisition Law Applications and Taxation Analysis	6
Director Kenneth Kin	Mar 1, 2016	Securities & Future Institute	How Listed Companies to Implement Corporate Social Responsibility and Prevent Insider Trading	3
	Apr 29, 2016	Taiwan Corporate Governance Association	International Trends of Senior Management Long-Term Incentive Compensation Design	3
	Dec 6, 2016	Securities & Future Institute	International and Domestic Anti-Tax Avoidance Development and Corporate Reaction	3
Independent Director Chung-Yu Wu	May 5, 2016	Securities & Future Institute	Legal Liability of Directors and Supervisors in Hostile Mergers and Acquisitions	3
	Jun 24, 2016	Taiwan Corporate Governance Association	Corporate Governance and Securities Regulations; Revised Merger and Acquisition Law Applications and Taxation Analysis	6
	Aug 4, 2016	Securities & Future Institute	Directors and Supervisors Practices Advanced Seminar: Case Study on Employee Compensation Strategies and Tool Applications	3
	Oct 14, 2016	Taiwan Corporate Governance Association	Audit Committee Operation Practices	3
Independent Director Tain-Jy Chen (Note)	Mar 15, 2016	Taiwan Corporate Governance Association	How to Protect Trade Secret and Prevent Fraud Risk to Enhance Corporate Governance	3
Independent Director Peng-Hen Chang	Oct 20, 2016	Financial Supervisory Commission, R.O.C.	The 11 th Taipei Corporate Governance Forum	6

Note: The resignation of Independent Director, Mr. Tain-Jy Chen, took effect on May 14, 2016.

4.8.2. Key Management Profession Enhancement Status

Title/Name	Date	Host by	Training / Speech title	Hours
Senior Vice President & CFO & Spokesperson David Ku	Nov 23, 2016	Accounting Research and Development Foundation	Advanced Lectures for Accounting Mangers of Issuers, Brokers and Securities Dealer	12
	Nov 24, 2016			
Director, Internal Audit Perry Nien	Aug 26, 2016	The Institute of Internal Auditors- Chinese Taiwan	Strategic Audit Practice Seminar	6
	Nov 1, 2016	Computer Audit Association	Corporate Fraud Risk Management – Abnormal Fraud Risk Detection and Prevention	6

4.9. Status of the Internal Control System Implementation

4.9.1. Declaration of Internal Control

MediaTek Inc. Statement of Declaration of Internal Control

Date: March 22nd, 2017

MediaTek Inc. has conducted internal audits in accordance with its Internal Control Regulations for the period ended December 31st, 2016, and hereby declares the following:

1. The Company acknowledges and understands that the establishment, enforcement, and preservation of internal control systems are the responsibility of the Board and that the managers and the Company have already established such systems. The purpose is to reasonably ensure the effectiveness (including profitability, performance, and security of assets), the reliability, timeliness, transparency of financial reporting, and legal and regulation compliance.
2. Internal control systems have limitations, no matter how perfectly they are designed. As such, effective internal control systems may only reasonably ensure the achievement of the aforementioned goals. Further, the operation environment and situation may vary, and hence the effectiveness of the internal controls systems. The internal control systems of the Company feature certain self-monitoring mechanisms. The company will take immediate corrective actions once any shortcomings are identified.
3. The Company judges the effectiveness of the internal control systems in design and enforcement according to the “Criteria for the Establishment of Internal Control Systems of Public Offering Companies” (hereinafter referred to as “the Criteria”). The Criteria is instituted for judging the effectiveness of the design and enforcement of internal control systems. There are five components for effective internal control as specified by the Criteria with which the procedures for effective internal controls are composed: (1) Control environment, (2) Risk evaluation, (3) Control operation, (4) Information and communication, and (5) Monitoring. Each of the elements in turn contains certain audit items, and the Criteria shall be referred to for details.
4. The Company has adopted the aforementioned internal control systems for an internal assessment of the effectiveness of internal control design and enforcement.
5. Based on the aforementioned audit findings, the Company holds that within the aforementioned period, its internal control procedures (including the procedures to monitor subsidiaries), effectiveness and efficiency of operations, reliability, timeliness, transparency of reporting, and compliance with relevant legal regulations, and design and enforcement of internal controls, are effective. The aforementioned goals can be achieved with reasonable assurance.
6. This statement of declaration shall form an integral part of the annual report and prospectus of the Company and shall be made public. If there is any fraud, concealment, or unlawful practices discovered in the content of the aforementioned information, the Company shall be liable to legal consequences under Article 20, 32, 171, and 174 of the Securities and Exchanges Act.
7. This statement of declaration has been approved by the Board on March 22nd 2017 with all Directors in session under unanimous consent.

MediaTek Inc.

Ming-Kai Tsai
Chairman
Ching-Jiang Hsieh
Vice-Chairman and President

4.9.2. Disclose the Review Report of Independent Auditors if They are Retained for Reviewing the Internal Control System

None.

4.10. Reprimands on the Company and its Staff

Reprimand on the Company and its Staff in Violation of Laws, or Reprimand on its Employees in Violation of Internal Control System and Other Internal Regulations, Major Shortcomings and Status of Correction: None.

4.11. Major Resolutions of Shareholders' Meeting and Board Meetings

4.11.1. Major Resolutions of Shareholders' Meeting and Implementation Status

The Company held 2016 Annual General Meeting on June 24, 2016 at International Convention Center, MediaTek in No. 1, Dusing 1st Road, Hsinchu Science Park, Hsinchu City, Taiwan R.O.C. Among the meeting, the attended shareholders approved the following resolutions:

Major Resolutions	Implementation Status
Acknowledgement Items: (1) Adoption of the 2015 Business Report and Financial Statements (2) Adoption of the Proposal for Distribution of 2015 Profits	Approved. Approved a cash dividend per share of NT\$11. The total amount of cash dividend distribution was NT\$17,287,421 thousand and cash dividend payment date was August 11, 2016.
Discussion Items: (1) Amendment to the Company's "Articles of Incorporation" (2) Issuance of Restricted Stock Awards	Approved and implemented in accordance with the resolutions Approved and issued 10,528,505 shares on September 6, 2016

4.11.2. Major Resolutions of Board Meetings

During the 2016 calendar year and as of the printing date of this annual report, 11 Board meetings were convened. Major resolutions approved at these meetings are summarized below:

Date	Meeting	Major Approvals
Feb 1, 2016	The 5 th meeting of the 7 th board	2016 first quarter financial forecasts Acquisition of real estate Disposal of assets and participation in subsidiary's capital increase Amendment to the "Article of Incorporation" Amendment to Remuneration Committee charter, remuneration plan for directors, remuneration plan and compensation for business strife limitation Key management's 2015 performance evaluation and remuneration proposal for 2016
Mar 17, 2016	The 6 th meeting of the 7 th board	Proposal of 2015 remuneration to directors Proposal of 2015 employees' compensation 2015 operation results and report 2016 operating budget plan 2015 internal control statement 2016 AGM date, venue and agenda Personnel change of Internal Audit Officer
Apr 29, 2016	The 7 th meeting of the 7 th board	Proposal of the issuance of restricted stock awards 2016 second quarter financial forecasts Proposal of 2015 profit distribution Amendment to 2016 AGM agenda Suspend the non-competition restriction on management
May 13, 2016	The 8 th meeting of the 7 th board	Subsidiary Ralink Technology (Samoa) Corp. – the sale of shareholding of AutoChips Inc. Sign a Letter of Intent with NavInfo Co., Ltd. Sign a Strategic Cooperation Agreement with NavInfo Co., Ltd. Subsidiary Gaintech Co. Limited – the investment in Yuan Ke (Pingtan) Investment Fund Limited Partnership Appointment of key management
Aug 3, 2016	The 9 th meeting of the 7 th board	Principles of issuance of restricted stock awards Construction of the new building on rented land
Aug 23, 2016	The 10 th meeting of the 7 th board	Amendment to proposal of issuance of 2016 restricted stock awards Proposal of management stock compensation Issuance of restricted stock awards in accordance with principles of issuance of 2016 restricted stock awards
Oct 28, 2016	The 11 st meeting of the 7 th board	Review of independence of CPA 2016 CPA compensation Amendment to principle of the Board performance assessment 2017 audit plan Amendment to internal control system self-assessment procedures Suspend the non-competition restriction on management Appointment of key management
Jan 26, 2017	The 12 nd meeting of the 7 th board	2016 Board performance assessment reports 2017 first quarter financial forecasts Key management's 2016 performance evaluation and remuneration proposal for 2017
Feb 10, 2017	The 13 rd meeting of the 7 th board	Tender offer for the common shares of Airoha Technology Corporation Outward loan to subsidiary Hsu-Si Investment Corp. Participation of cash capital increase of subsidiary Hus-Ta Investment Corp. by NT\$7.5 billion
Mar 22, 2017	The 14 th meeting of the 7 th board	New key management appointment and remuneration Proposal of issuance of restricted stock awards in accordance with proposal of issuance of 2016 restricted stock awards 2016 Directors compensation 2017 AGM date, venue and agenda Election of one Independent Director to fill the existing vacancy and one Director to fill the additional board seat Nomination of Director Proposal of Directors candidate nomination period and location Update 2017 first quarter financial forecasts Update 2016 fourth quarter financial forecasts Proposal of 2016 employees' compensation 2016 operation report and 2017 operating budget plan 2016 operating results 2016 internal control statement and self-assessment report Amendment to internal control system Set capital reduction record date due to cancellation of portion of 2016 fourth quarter restricted stock awards Replacement of CPA Review of independence of CPA Suspend the non-competition restriction on management
Apr 28, 2017	The 15 th meeting of the 7 th board	2017 second quarter financial forecast Cancellation of portion of 2017 first quarter restricted stock awards Proposal of 2016 profit distribution and authorization to Chairman to set ex-dividend date Review of Director candidate Suspend the non-competition restriction on director Amendment to the "Procedures Governing the Acquisition or Disposition of Assets" Amendment to the "Article of Incorporation"

4.12. Major Issues of Record or Written Statements Made by Any Director Dissenting to Important Resolutions Passed by the Board of Directors

None.

4.13. Resignation of Personnel Related to Financial Statement Preparation in 2016 to the Printing Date of this Report

Title	Name	Date of Appointment	Date of Termination	Reasons for Resignation or Dismissal
Internal Audit Officer	Kirin Liu	Feb 17, 2008	Apr 1, 2016	Position adjustment

Note: Internal Audit Officer, Mr. Kirin Liu, officially withdrew from his position on April 1st, 2016 due to internal position adjustment. Mr. Perry Nien is the successor of Internal Audit Officer.

5. Information Regarding MediaTek's Independent Auditors

5.1. Auditor Information

Accounting Firm	Name of CPA	Period Covered by CPA's Audit	Remarks
Ernst & Young	Jia-Ling Tu Jin-Lai Wang	2016	None

5.2. Information on Audit Fees

5.2.1. Audit Fee Scale

	Audit Fee	Non-Audit Fee	Total
Less than NT\$2 million		✓	
NT\$2 million ~ \$4 million			
NT\$4 million ~ \$6 million			
NT\$6 million ~ \$8 million			
NT\$8 million ~ \$10 million			
Above NT\$10 million	✓		✓

5.2.2. Information on Audit Fee

Unit: NT\$ thousands

Accounting Firm	Name of CPA	Audit Fee	Non-audit Fee				Subtotal	Period Covered by CPA's Audit	Remarks
			System of Design	Company Registration	Human Resource	Others			
Ernst & Young	Jia-Ling Tu	10,985	-	338	-	490	828	2016	
	Jin-Lai Wang								

5.2.3. Non-audit fee paid to auditors, the audit firm and its affiliates accounted for more than one-fourth of total audit fee:

None.

5.2.4. Replaced the audit firm and the audit fee paid to the new audit firm was less than the payment of previous year:

Not applicable.

5.2.5. Audit fee reduced more than 15% year over year:

None.

5.3. Replacement of Independent Auditors in the Last Two Years and Thereafter:

5.3.1. Regarding the former CPA

Replacement Date		February 9, 2015			March 22, 2017			
Replacement reasons and explanations	Accounting firm's job rotation in accordance with relevant regulations			Accounting firm's job rotation in accordance with relevant regulations				
Describe whether the Company terminated or the CPA did not accept the appointment	Parties		CPA	The Company	Parties		CPA	The Company
	Status				Status			
	Termination of appointment		Not applicable	Not applicable	Termination of appointment		Not applicable	Not applicable
No longer accepted (continued) appointment		Not applicable	Not applicable	No longer accepted (continued) appointment		Not applicable	Not applicable	
Other issues (except for unqualified issues) in the audit reports within the last two years	None			None				
Differences with the company	Yes		Accounting principles or practices		Yes		Accounting principles or practices	
			Disclosure of Financial Statements				Disclosure of Financial Statements	
			Audit scope or steps				Audit scope or steps	
			Others				Others	
	None	V			None	V		
Remarks/specify details: Not applicable.				Remarks/specify details: Not applicable.				
Other Revealed Matters	None			None				

5.3.2. Regarding the successor CPA

Name of accounting firm	Ernst & Young	Ernst & Young
Name of CPA	Jia-Ling Tu, Jin-Lai Wang	Shao-Pin Kuo, Wen-Fun Fuh
Date of appointment	February 9, 2015	March 22, 2017
Consultation results and opinions on accounting treatments or principles with respect to specified transactions and the company's financial reports that the CPA might issue prior to the engagement.	None	None
Succeeding CPA's written opinion of disagreement toward the former CPA	None	None

5.4. The Company's Chairman, President or managers in charge of finance or accounting has been under current audit firm or its affiliates' employment in 2016:

None.

5.5. Evaluation of the External Auditor's Independence:

The Company Accounting Division evaluates the independence of auditors once a year and receives Statement of Independence issued by external auditors. After evaluation, the Company's external auditors can meet the Company's independency evaluation standards and be qualified as the Company's external auditors.

The Company has reported the evaluation result to Audit Committee and the Board for their review. Both of them approved.

Evaluation item	Evaluation result	Does it meet with independency?
1. Do the accounting firm's audit team members and their families have direct or indirect significant financial interest with the Company?	None	Yes
2. Do the accounting firm, their affiliates and audit team members have that business relationship with the Company or the Company's directors and key managers may impact independency?	None	Yes
3. Are the accounting firm and their audit team members as well as their families served as the Company's directors, key managers or any other position which can have direct and significant impact on auditing?	None	Yes

6. Net Changes in Shareholding

Net Change in Shareholding and Net Change in Shares Pledged by Directors, Management and Shareholders with 10% Shareholding or More

Unit: Shares

Title/Name	2016		Jan. 1 to April 30, 2017	
	Net Change in Shareholding	Net Change in Shares Pledged	Net Change in Shareholding	Net Change in Shares Pledged
Chairman & CEO Ming-Kai Tsai	-	-	-	-
Vice Chairman & President Ching-Jiang Hsieh	-	-	-	-
Director Cheng-Yaw Sun	-	-	-	-
Director Kenneth Kin	-	-	-	-
Independent Director Chung-Yu Wu	236,000	-	-	-
Independent Director Peng-Heng Chang	-	-	-	-
Independent Director Tain-Jy Chen (Note1)	-	-	-	-
Executive Vice President & Co-COO Jeffrey Ju	-	-	-	-
Executive Vice President & Co-COO Joe Chen	-	-	-	-
Senior Vice President Kou-Hung Loh	-	-	-	-
Senior Vice President Cheng-Te Chuang	-	-	-	-
Senior Vice President & CTO Kevin Jou	-	-	-	-
Senior Vice President & CFO & Spokesperson David Ku	-	-	-	-
Vice President & General Counsel Wei-Fu Hsu (Note2)	-	-	-	-
Vice President Johan Erik Lodenius (Note3)	-	-	-	-
Vice President Jerry Yu	-	-	-	-
Vice President Rolly Chang	-	-	-	-
Vice President JC Hsu	-	-	-	-
Vice President Jasper Yang (Note4)	-	-	-	-
Vice President & CHRO Sherry Lin (Note5)	-	-	-	-
Vice President & General Counsel David Su (Note6)	-	-	-	-
Vice President Uming Ko (Note7)	-	-	-	-

Note1: The resignation of Independent Director, Mr. Tain-Jy Chen, took effect on May 14, 2016 and no longer has to disclose his share information since then.

Note2: Vice President & General Counsel, Mr. Wei-Fu Hsu, officially withdrew from his position on July 1, 2016 and no longer has to disclose his share information since then.

Note3: Vice President, Mr. Johan Erik Lodenius, officially withdrew from his position on January 21, 2017 and no longer has to disclose his share information since then.

Note4: Mr. Jasper Yang was appointed as Vice President on June 1, 2016 so his share information disclosure is from then on.

Note5: Ms. Sherry Lin was appointed as Vice President on June 1, 2016 so her share information disclosure is from then on.

Note6: Mr. David Su was appointed as Vice President and General Counsel on November 1, 2016 so his share information disclosure is from then on.

Note7: Mr. Uming Ko was appointed as Vice President on November 1, 2016 so his share information disclosure is from then on.

Stock Trade with Related Party:

Name	Reason for Transfer	Date of Transaction	Transferee	Relationship between Transferee and Directors, Supervisors, Managers and Major Shareholders	Shares	Transaction Price (NT\$)
Chung-Yu Wu	Endowment	Nov 8, 2016	Zhao-Ling Zeng	Spouse	236,000	

Stock Pledge with Related Party: None.

7. Top 10 Shareholders Who are Related Parties to Each Other

As of April 17, 2017. Unit: Shares / %

Top 10 Shareholders	Shareholding		Shareholding under Spouse and Minor		Shareholding under 3 rd Party		Top 10 Shareholders Who are Related Parties to Each Other	
	Shares	Proportion	Shares	Proportion	Shares	Proportion	Name	Relationship
Government of Singapore	69,512,954	4.39%	-	-	-	-	-	-
Chui-Hsing Lee	46,009,145	2.91%	41,006,187	2.59%	-	-	Ming-Kai Tsai	Spouse
JPMorgan Chase Bank N.A. Taipei Branch in custody for Saudi Arabian Monetary Agency	42,725,225	2.70%	-	-	-	-	-	-
Ming-Kai Tsai	41,006,187	2.59%	46,009,145	2.91%	-	-	Chui-Hsing Lee	Spouse
First State Investments ICVC - Stewart Investors Asia Pacific Leaders Fund	34,388,000	2.17%	-	-	-	-	-	-
Jyh-Jer Cho	29,905,222	1.89%	10,774,414	0.68%	-	-	-	-
MAS - GIC Private Limited	26,450,561	1.67%	-	-	-	-	-	-
Vanguard Emerging Markets Stock Index Fund, a series of Vanguard International Equity Index Funds	24,075,143	1.52%	-	-	-	-	-	-
New Labor Pension Fund Management Committee	21,065,040	1.33%	-	-	-	-	-	-
Tin-Ren Liu	20,591,763	1.30%	3,449,879	0.22%	-	-	-	-

8. Long-Term Investment Ownership

As of December 31, 2016. Unit: Shares / %

Long-Term Investments	Investments by MediaTek (1)		Investments Directly or Indirectly Controlled by Directors, Supervisors, and Managers of MediaTek (2)		Total Investment (1) + (2)	
	Shares	Portion	Shares	Portion	Shares	Portion
Hsu-Ta Investment Corp.	3,358,981,889	100%	-	-	3,358,981,889	100%
MediaTek Investment Singapore Pte. Ltd.	2,193,635,278	100%	-	-	2,193,635,278	100%
MediaTek Singapore Pte. Ltd.	111,993,960	100%	-	-	111,993,960	100%
T-Rich Technology (Cayman) Corp.	1,248,583	100%	-	-	1,248,583	100%
MStar Semiconductor Inc.	145,253,238	100%	-	-	145,253,238	100%
Hsu-Chuang Investment Corp.	30,000,000	100%	-	-	30,000,000	100%
HFI Innovation Inc.	62,162,397	100%	-	-	62,162,397	100%

IV. Capital and Shares

1. Capital and Shares

1.1. Capitalization

As of April 30, 2017. Unit: shares / NTS

Month/ Year	Issue Price (per share)	Authorized Capital		Paid-in Capital		Sources of Capital (shares)	Remarks Capital Increase by Assets Other than Cash	Date of Approval & Approval Document No.
		Shares	Amount	Shares	Amount			
Sep 2016	10	2,000,000,000	20,000,000,000	1,582,112,191	15,821,121,910	Restricted stock award issuance: 10,528,505	-	Sep 21, 2016 Yuan-Shang-Tze No. 1050026545
Mar 2017	10	2,000,000,000	20,000,000,000	1,582,111,907	15,821,119,070	Restricted stock award cancellation: 284	-	Apr 6, 2017 Yuan-Shang-Tze No. 1060008894
Apr 2017	10	2,000,000,000	20,000,000,000	1,581,603,381	15,816,033,810	Restricted stock award cancellation: 508,526	-	Currently under amendment registration

As of April 30, 2017. Unit: shares

Type of Stock	Authorized Capital			Remark
	Outstanding	Un-Issued	Total	
Common Stock	1,581,603,381	418,396,619	2,000,000,000	Listed on TSE

Shelf Registration: None.

1.2. Composition of Shareholders

As of April 17, 2017. Unit: shares / %

Type of Shareholders	Government Agencies	Financial Institutions	Other Juridical Persons	Foreign Institutions & Persons	Individuals	Total
Number of Shareholders	1	66	476	1,292	95,878	97,713
Shareholding	2	67,783,960	114,292,649	920,526,438	479,508,858	1,582,111,907
Holding Percentage	0.00%	4.28%	7.22%	58.19%	30.31%	100.00%

1.3. Distribution of Shareholding

1.3.1 Distribution of Common Stock

As of April 17, 2017. Unit: shares / %

Common Share Shareholder Ownership	Number of Shareholders	Ownership	Ownership
1 ~ 999	29,952	4,142,140	0.26%
1,000 ~ 5,000	56,225	103,796,648	6.56%
5,001 ~ 10,000	5,874	43,598,138	2.76%
10,001 ~ 15,000	1,693	21,069,353	1.33%
15,001 ~ 20,000	986	17,661,146	1.12%
20,001 ~ 30,000	923	23,012,229	1.45%
30,001 ~ 40,000	422	14,807,991	0.94%
40,001 ~ 50,000	244	11,113,641	0.70%
50,001 ~ 100,000	519	36,912,826	2.33%
100,001 ~ 200,000	296	42,687,121	2.70%
200,001 ~ 400,000	188	53,125,503	3.36%
400,001 ~ 600,000	94	45,868,179	2.90%
600,001 ~ 800,000	59	41,500,803	2.62%
800,001 ~ 1,000,000	34	30,313,622	1.92%
Over 1,000,001	204	1,092,502,567	69.05%
Total	97,713	1,582,111,907	100.00%

1.3.2 Distribution of Preferred Stock: Not Applicable.

1.4. Major Shareholders

As of April 17, 2017. Unit: shares / %

Top 10 Shareholders	Total Shares Owned	Ownership (%)
Government of Singapore	69,512,954	4.39%
Chui-Hsing Lee	46,009,145	2.91%
JPMorgan Chase Bank N.A. Taipei Branch in custody for Saudi Arabian Monetary Agency	42,725,225	2.70%
Ming-Kai Tsai	41,006,187	2.59%
First State Investments ICVC - Stewart Investors Asia Pacific Leaders Fund	34,388,000	2.17%
Jyh-Jer Cho	29,905,222	1.89%
MAS - GIC Private Limited	26,450,561	1.67%
Vanguard Emerging Markets Stock Index Fund, a series of Vanguard International Equity Index Funds	24,075,143	1.52%
New Labor Pension Fund Management Committee	21,065,040	1.33%
Tin-Ren Liu	20,591,763	1.30%

1.5. Market Price, Net Worth, Earnings, Dividends per Common Share

Unit: NT\$ / Shares

Item		2015 (Distributed in 2016)	2016 (Distributed in 2017)	Jan. 1 ~ Mar. 31, 2017	
Market Price Per Share (Note1)	Highest	505.0	265.0	231.5	
	Lowest	227.0	192.0	203.0	
	Average	354.7	230.9	217.8	
Book Value Per Share	Before Distribution	153.75	155.48	160.17	
	After Distribution	142.69	*	*	
Earnings Per Share	Weighted Average Shares	1,563,777,089	1,563,789,601	1,563,789,601	
	EPS	Not-Adjusted	16.60	15.16	4.29
		Adjusted	16.60	*	**
Dividends Per Share	Cash Dividends	11.00	*	**	
	Stock Dividend	Earning Distribution	-	*	**
		Capital Distribution	-	*	**
	Accumulated Undistributed Dividend	-	-	**	
Return on Investment	Price/Earnings Ratio (Note2)	21.37	15.23	**	
	Price/Dividend Ratio (Note3)	32.25	*	**	
	Cash Dividend Yield (Note4)	3.10%	*	**	

* : Pending shareholders' approval in Annual General Shareholders' Meeting

** : Not applicable.

Note1: Retroactively adjusted for stock dividends and stock bonuses to employees

Note2: Price/Earnings Ratio = Average Market Price / Earnings Per Share

Note3: Price/Dividend Ratio = Average Market Price / Cash Dividends Per Share

Note4: Cash Dividend Yield = Cash Dividends Per Share / Annual Average Market Price

1.6. Dividend Policy and Status

1.6.1. Dividend Policy under the Articles of Incorporation

Since the Company is in an industry that's in a growth phase, the dividend policy shall take into consideration factors such as the Company's current and future investment environment, needs for capital, domestic and overseas competition, capital budgeting plans, etc., to come out with a proposal that strikes a balance among shareholders' benefits and the Company's long-term financial plans. Each year, the Board of Directors shall prepare a profit distribution proposal and report it at the shareholders' meeting. After considering financial, business and operational factors, the Company may distribute all distributable profits for the year; dividends to shareholders may be distributed in cash or in stock, and the cash dividends shall not be lower than 10% of total dividends to shareholders.

1.6.2. Proposal to Distribute 2016 Profits (Approved by the Board and subject to Shareholders' approval)

The Board adopted a proposal for 2016 profit distribution as follows:

Cash dividends to common shareholders from retained earnings is NT\$12,652,827 thousand and cash distributed from additional paid-in capital in capital surplus to common shareholders is NT\$2,372,405 thousand, which are a total of NT\$15,025,232, or NT\$9.5 of cash to common shareholder per share. The proposal is subject to shareholders' approval at the Annual Shareholders' Meeting. The Chairman will then determine an ex-dividend date.

1.7. Effect of 2016 Share Dividends to Operating Performance and EPS

Not applicable.

1.8. Employees' Compensation and Remuneration to Directors and Supervisors

1.8.1. Employees' Compensation and Remuneration to Directors and Supervisors as Stated in the Articles of Incorporation

According to the addition of Article 235-1 of the Company Act announced on May 20, 2015, the Company shall provide a fixed amount or percentage of the profit for the year to be distributed as "employees' compensation". A resolution was passed at a Board meeting of the Company held on February 1, 2016 to amend the Articles of Incorporation of the Company. According to the amended Articles of Incorporation of the Company, 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, the Company's accumulated losses shall have been covered (if any). The Company 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.

1.8.2. Proposed 2016 Employees' Compensation and Remuneration to Directors and Supervisors

The Company accrued employees' compensation and remuneration to directors based on a percentage of profit. If the estimated amounts differ from the actual distribution resolved by the Board of Directors, the Company will recognize the change as an adjustment to income of next year. A resolution was approved at a Board meeting held on March 22, 2017 to distribute employees' compensation and remuneration to directors, respectively. There was no significant discrepancy between the aforementioned approved amounts and the amounts changed against earnings in 2016. Further details are as follows.

Unit: NT\$ thousands

Distribution Items	Board meeting resolution
Employees' Compensation	309,130
Remuneration to Directors	42,661

Note: The aforementioned employees' compensation NT\$309,130 thousand and employee bonus NT\$5,873,478 thousand will be distributed in 2017.

1.8.3. Earnings Retained in Previous Period (2015) Allocated as Employee Compensation and Directors and Supervisors Remuneration

Unit: shares / NT\$ thousands

Items	AGM resolution	Estimate	Difference	Shares	Share price (NT\$)	Reason of difference
Employee Compensation – Cash	351,232	351,232	-	-	-	-
Remuneration to Directors & Supervisors	47,416	46,301	1,115	-	-	(Note)

Note: The difference was mainly because different calculation basis and the difference shall be accounted as "changes in accounting estimations" and booked in the next fiscal year's financial report, subject to shareholders' approval of the distribution plan in the annual shareholders' meeting.

1.9. Repurchase of Company Shares:

None.

2. Status of Corporate Bonds

None.

3. Status of Preferred Stocks

None.

4. Status of GDR/ADR

None.

5. Status of Employee Stock Option Plan

5.1. Issuance of Employee Stock Options

As of April 30, 2017. Unit: shares / NT\$ thousands

Employee Stock Options Granted	1 st Grant	2 nd Grant	3 rd Grant	4 th Grant
Approval Date by the Securities & Futures Bureau	Dec. 19, 2007	Dec. 19, 2007	Jul. 27, 2009	May 10, 2010
Issue (Grant) Date	Mar. 31, 2008	Aug. 28, 2008	Aug. 18, 2009	August 27, 2010
Number of Options Granted	1,134,119	1,640,285	1,382,630	1,605,757
Percentage of Shares Exercisable to Outstanding Common Shares	0.08%	0.12%	0.10%	0.12%
Option Duration	10 years	10 years	10 years	10 years
Source of Option Shares	New Common Share	New Common Share	New Common Share	New Common Share
Vesting Schedule	2nd Year: Up to 30% 3rd Year: Up to 60% 4th Year: Up to 100%	2nd Year: Up to 30% 3rd Year: Up to 60% 4th Year: Up to 100%	2nd Year: Up to 30% 3rd Year: Up to 60% 4th Year: Up to 100%	2nd Year: Up to 30% 3rd Year: Up to 60% 4th Year: Up to 100%
Shares Exercised	280,882	300,817	80,853	147,841
Value of Shares Exercised	103,376	104,859	34,726	59,846
Shares Unexercised	239,755	419,656	502,681	637,183
Adjusted Exercise Price Per Share (NT\$)	355.6	342.2	426.6	402.1
Percentage of Shares Unexercised to Outstanding Common Shares	0.02%	0.03%	0.03%	0.04%
Impact to Shareholders' Equity	Dilution to shareholder's equity is limited			

Employee Stock Options Granted	5 th Grant	6 th Grant	15 th Grant	16 th Grant
Approval Date by the Securities & Futures Bureau	May 10, 2010	Aug. 9, 2011	Aug. 9, 2012	Aug. 9, 2013
Issue (Grant) Date	Nov. 4, 2010	Aug. 24, 2011	Aug. 14, 2012	Aug. 22, 2013
Number of Options Granted	65,839	2,109,871	1,346,795	1,436,343
Percentage of Shares Exercisable to Outstanding Common Shares	0.00%	0.16%	0.10%	0.11%
Option Duration	10 years	10 years	10 years	10 years
Source of Option Shares	New Common Share	New Common Share	New Common Share	New Common Share
Vesting Schedule	2nd Year: Up to 30% 3rd Year: Up to 60% 4th Year: Up to 100%	2nd Year: Up to 30% 3rd Year: Up to 60% 4th Year: Up to 100%	2nd Year: Up to 30% 3rd Year: Up to 60% 4th Year: Up to 100%	2nd Year: Up to 30% 3rd Year: Up to 60% 4th Year: Up to 100%
Shares Exercised	923	349,482	63,576	0
Value of Shares Exercised (NT\$)	375	96,946	18,234	0
Shares Unexercised	8,134	1,102,220	880,132	1,097,487
Adjusted Exercise Price Per Share (NT\$)	374.5	275.6	284.9	365.6
Percentage of Shares Unexercised to Outstanding Common Shares	0.00%	0.07%	0.06%	0.07%
Impact to Shareholders' Equity	Dilution to original shareholders' holding is limited			

5.2. Employee Stock Option Granted to Management Team and to Top 10 Employees:

As of April 30, 2017. Unit: shares / NT\$ thousands

Title	Name	Number of Option Acquired	Number of Option Acquired / Number of Option Issued	Exercised			Not Exercised				
				Number of Option	Exercise Price (NT\$)	Option amount	Number of Option / Number of Option Issued	Number of Option	Exercise Price (NT\$)	Option amount	Number of Option / Number of Option Issued
Manager and employee	Bernard Tenbroek	874,063	0.06%	47,312	326.7	15,456	0.00%	826,751	344.9	285,159	0.05%
	Douglas Remington										
	Henry Vickers										
	James K Farley										
	John Finbarr Moynihan										
	Jonathan Strange										
	Michael Ashburn										
	Russell Mestechkin										
	Stacy Ho										
	Vincent Del Vecchio										

Note1: The Company's managers are not granted with employee stock option.

Note2: The share issued is calculated based on the amended number of total share issued approved by Ministry of Economic Affairs on April 6, 2017.

6. Status of New Employees Restricted Stock Issuance

6.1. Issuance of New Restricted Employee Shares

As of April 30, 2017

Type of New Restricted Employee Shares	1 st Grant
Date of Effective Registration	Aug 19, 2016
Issue date	Sep 6, 2016
Number of New Restricted Employee Shares Issued	10,528,505
Issued Price (NT\$)	None
New Restricted Employee Shares as a Percentage of Shares Issued	0.67%
Vesting Conditions of New Restricted Employee Shares	<p>1. Employee's continuous employment with the Company through the vesting dates, no violation on any terms of the Company's employment agreement, employee handbook, or policies and achievement of both personal performance criterion and the Company's operation objectives during the vesting period are required to receive the vested shares. The maximum portions of the vesting shares of each year are 15%, 35%, and 50% for year 2017, 2018, and 2019 respectively. The actual portions of the vesting shares shall be subject to adjustment based on (i) the Company's Operating Target ("COT"), and (ii) the Personal Performance Index ("PPI"). The share shall be rounded down to the nearest integer.</p> <p>2. Personal Performance Index ("PPI") is determined with reference to the Employee's year-end performance rating for the year preceding the vesting date and shall be an I (Meets Expectations) rating or better. And, the work result has to meet the predetermined performance standard between employee and Company. Company's Operating Target ("COT") shall be determined with reference to Revenue, Gross Margin, Operating Margin, and Return on Equity (ROE) operating index targets. Achievement of Operating Index Targets for a particular vesting date shall be determined by the Company with reference to the corresponding operating indices set forth in MediaTek's audited, annual consolidated financial statements for MediaTek's fiscal year ending in the year prior to the vesting date. The Operating Index Targets are classified into low, mid, and high standards represented by 40%, 70% and 100% respectively. For an applicable vesting date, provided that at least two (2) Operating Index Targets (in separate indices) are achieved, the COT shall be equal to the percentage applicable to the highest two standards of Operating Index Targets (in separate indices) achieved, subject to the following: (i) if the highest two such standards achieved are the same, the COT shall be the percentage applicable to such standard; (ii) if highest two such standards achieved are the not the same and are separated by one-degree (e.g. Low-standard and Mid-Standard), the COT shall be the percentage applicable to</p>

	<p>the higher of the two standards; and (iii) if highest two such standards achieved are different and are separated by two-degrees (e.g. Low-standard and High-standard) the COT shall be 70%. Each Operating Index Targets range in Y2016 is set as below table, Y2017 and Y2018's target should grow comparing to the previous year.</p> <table border="1"> <thead> <tr> <th>Company's Operation Objectives</th> <th>Revenue (NT\$ billions)</th> <th>Gross Margin</th> <th>Operating Margin</th> <th>ROE</th> </tr> </thead> <tbody> <tr> <td>2016</td> <td>234.6~255.9</td> <td>35%~40%</td> <td>7%~11%</td> <td>6.5~12.5%</td> </tr> </tbody> </table>	Company's Operation Objectives	Revenue (NT\$ billions)	Gross Margin	Operating Margin	ROE	2016	234.6~255.9	35%~40%	7%~11%	6.5~12.5%
Company's Operation Objectives	Revenue (NT\$ billions)	Gross Margin	Operating Margin	ROE							
2016	234.6~255.9	35%~40%	7%~11%	6.5~12.5%							
Restricted Rights of New Restricted Employee Shares	<ol style="list-style-type: none"> During the vesting period, employee may not sell, pledge, transfer, give to another person, create any encumbrance on, or otherwise dispose of, restricted employee shares. During the vesting period, restricted employee shares' rights on AGM such as attendance, proposal, say, vote and election are in accordance with the Company's issued common shares and exercised by trust agency. During the vesting period, other restricted employee shares' rights including but not limited to cash dividend, share dividend, legal reserve and capital surplus distributable right, subscription rights of capital increase, etc. are in accordance with the Company's issued common shares and exercised by trust agency. During the period from the Company's book closure date for issuance of bonus shares, book closure date for cash dividends, book closure date for subscription rights of capital increase, book closure date for AGM regulated by Article 165-3 of the Company Act, or legislative book closure date for other event to ex-rights (ex-dividend) record date, when employees achieved the vesting condition, their vesting shares' unrestricted schedule and process are carried out in accordance with custody contract or relevant regulations. 										
Custody Status of New Restricted Employee Shares	<ol style="list-style-type: none"> After new restricted employee shares are issued, the shares must immediately be deposited in trust. Further, before the vesting conditions have been met, the employee may not for any reason or in any manner request that the trustee return the new restricted employee shares. During the period in which the new restricted employee shares are placed in trust, Company shall have full discretion to act as agent for the employee to conduct with the share trust institution matters including, without limitation, the negotiation, signing, amendment, extension, rescission, and termination of the trust agreement, and giving of instructions for the delivery, utilization, or disposition of the assets in trust. 										
Measures to be Taken When Vesting Conditions are not Met	<ol style="list-style-type: none"> In the event that (i) the employment with the Company is terminated through the vesting dates, (ii) employee violates on any terms of the Company's employment agreement, employee handbook, or policies, (iii) personal performance criterion and the Company's operation objectives are not achieved, (iv) employee avoid the issuance policy to cancel Company's authorization to act as agent for the employee to conduct with the share trust institution matters, the Company will redeem the issued restricted employee shares and cancel the full number of the share with immediate effects. During the vesting period, if employee quit, is fired or is laid off, the Company will redeem the unvested and cancel the restricted employee shares with immediate effects. 										
Number of New Restricted Employee Shares that have been Redeemed or Bought Back	508,810										
Number of Released New Restricted Employee Shares	0										
Number of Unreleased New Restricted Shares	10,019,695										
Ratio of Unreleased New Restricted Shares to Total Issued Shares (%)	0.63%										
Impact on possible dilution of shareholdings	Dilution to original shareholders' holding is limited										

6.2. List of Executives Receiving New Restricted Employee Shares and the Top Ten Employees with New Restricted Employee Shares

As of April 30, 2017

Title	Name	No. of New Restricted Shares	New Restricted Shares as a Percentage of Shares Issued (Note)	No. of Shares	Released		Unreleased			Unreleased Restricted Shares as a Percentage of Shares Issued (Note)	
					Issued Price (NT\$)	Amount (NT\$ thousands)	Released Restricted Shares as a Percentage of Shares Issued (Note)	No. of Shares	Strike Price (NT\$)		Amount (NT\$ thousands)
Chairman & CEO	Ming-Kai Tsai										
Vice Chairman & President	Ching-Jiang Hsieh										
Executive Vice President & Co-CEO	Jeffrey Ju										
Executive Vice President & Co-CEO	Joe Chen										
Senior Vice President	Cheng-Te Chuang										
Senior Vice President & CFO & Spokesperson	David Ku										
Vice President	Jerry Yu										
Vice President	Rolly Chang										
Vice President	JC Hsu										
Vice President	Jasper Yang										
Vice President & CHRO	Sherry Lin	4,785,051	0.30%	0	0	0	0%	4,785,051	0	0	0.30%
Vice President & General Counsel	David Su										
Employee	Ching San Wu										
Employee	TL Lee										
Employee	HW Kao										
Employee	Alan Hsu										
Employee	Ryan Chen										
Employee	Alex Chen										
Employee	SA Huang										
Employee	HC Hwang										
Employee	JS Pan										
Employee	SR Tsai										
Employee	Alan Cheng										
Employee	Harrison Hsieh										
Employee	Evan Su										

Note: The share issued is calculated based on the amended number of total share issued approved by Ministry of Economic Affairs on April 6, 2017.

7. Status of New Shares Issuance in Connection with Mergers and Acquisitions

None.

8. Financing Plans and Implementation

8.1. Uncompleted share issuance or private placement or completed transactions without expected benefits in the past 3 years:

None.

V. Business Activities

1. Business Scope

1.1. Business Scope

1.1.1. The Main Business Activities of MediaTek

- A. Design, develop, produce, manufacture and market the following products:
 - a. Multimedia Integrated Circuits (IC);
 - b. Computer peripheral ICs;
 - c. High-end digital consumer ICs;
 - d. Other application specific ICs;
 - e. Patent and circuit-layout licensing and services of the above-mentioned products
- B. Provide the above-mentioned products with software and hardware application design, test, maintenance, and technological consultation services
- C. Import and export of the above-mentioned products

1.1.2. Revenue Mix (2016)

Product Category	Multimedia Chipsets	Others (Note)
Revenue Mix	99.43%	0.57%

Note: Others include revenue from technical services and licensing fees.

1.1.3. Products Currently Offered by MediaTek

- A. Mobile communication chipsets;
- B. Tablet chipsets;
- C. Bluetooth chips;
- D. Wireless LAN (WLAN) chips;
- E. Global Positioning Satellite (GPS) chips;
- F. NFC (Near Field Communication) SoCs;
- G. Connectivity combo SoCs that integrated Bluetooth, FM, WLAN, GPS, etc
- H. Multimode wireless charging chips;
- I. Wearable device SoCs;
- J. Smart home connectivity chips;
- K. Bio-sensing analog front-end chips;
- L. Optical storage chipsets;
- M. DVD player SoCs;
- N. Blu-ray DVD player chipsets;
- O. Highly-integrated digital TV controller chips;
- P. ATSC and DVB-T TV decoder and demodulator chipsets;
- Q. xDSL chipsets;
- R. Automotive chipsets;
- S. Power management and controller chips for various electronics and
- T. USB PD Type-C controller chips

1.1.4. New Products Planned for Development

- A. Next generation highly-integrated mobile communication chipsets;
- B. Next generation tablet chipsets;
- C. Next generation highly-integrated multi-functional wireless communication SoCs;
- D. Next generation wearable device chips;
- E. Next generation low-power smart home connectivity chips;

- F. Next generation highly integrated Ultra HD smart TV chips;
- G. Next generation highly integrated passive optical network (xPON) chipsets;
- H. Next generation highly integrated gigabyte digital subscriber line (VDSL 35B) chipsets and
- I. Next generation power management and controller chipsets for various electronics

1.2. Industry Outlook

1.2.1. The semiconductor manufacturing supply chain:

The semiconductor industry can be categorized as: upstream – IC design companies, midstream – wafer foundries, and downstream – IC packaging and testing service providers. The horizontal specialization is the main difference that sets Taiwan’s IC industry apart from its overseas peers. Major international semiconductor companies usually operate vertically across the value chain, from IC design and manufacturing, to packaging, testing, to systems integration. However, as the rapidly-evolving industry environment requires high capital expenditures, horizontal model is able to focus resources on specific field more efficiently to meet industry trends and proves to be an outperformer compared to the integrated model.

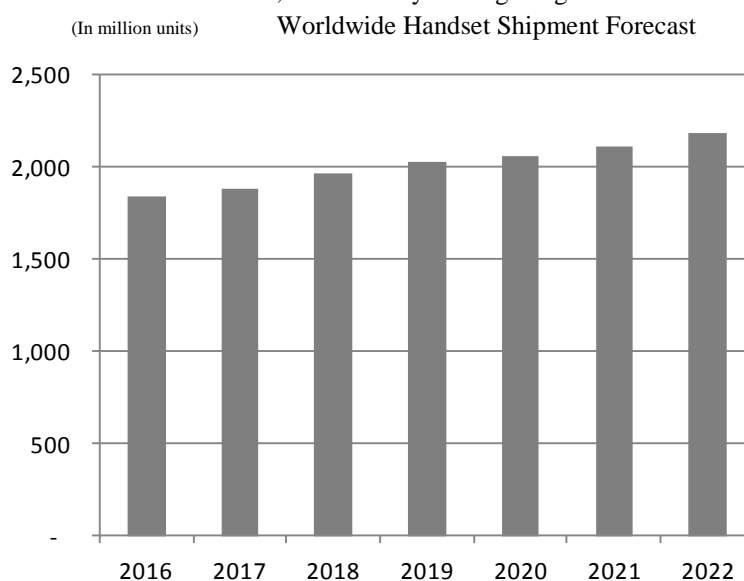
The major business of an IC design company is to design and sell semiconductor devices, or to design products based on customers’ requirements. IC design is the upstream of the industry value chain, while other players in the backend of supply chain, including photo mask providers, wafer foundries, packaging and testing companies, etc. In general, IC companies outsource almost 100% of photo mask, wafer fabrication, and IC packaging to specialized manufacturing partners. Most companies also outsource their IC testing work to specialized testing houses, while some IC design companies keeps a certain portion of in-house testing.

In the semiconductor supply chain, the IC design industry is a knowledge-intensive industry with a relatively high return on investment. Coupled with complete semiconductor industry ecosystem and ample talents, IC design is a thriving industry in Taiwan.

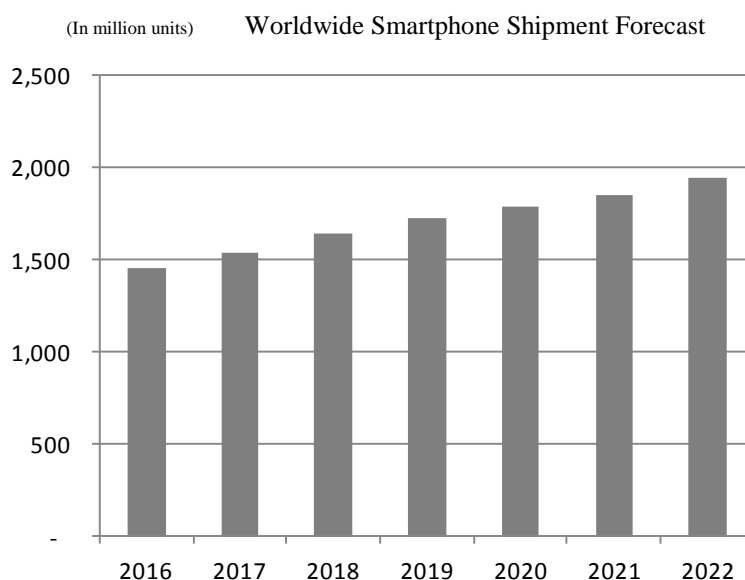
1.2.2. Industry Outlook, Trends and Competition

A. Wireless Communications Products

The wireless communication industry is booming and relevant applications are growing with handsets carrying the largest volume. According to Strategy Analytics, worldwide handset shipment has reached 1.8 billion units in 2016 and the number is expected to grow steadily to 2.2 billion units in 2022, thanks to the growth of smartphone shipments. Strategy Analytics estimated that global smartphone shipments was about 1.5 billion units in 2016 and the number is expected to grow to 1.9 billion units in 2022. In addition to mobile phones and tablets, the emerging Internet of Things, wearable devices and automotive electronics are important applications for wireless communications, concurrently driving the growth of wireless communication industry.



Source: Strategy Analytics, December 2016



Source: Strategy Analytics, December 2016

Global communication technologies continue to evolve and upgrade. 4G networks become mature in developed markets and Mainland China. Then, consumers request for faster uplink and downlink speed, which drives the continuous upgrade of 4G networks. 4G networks in emerging markets also become more popular, and with the falling prices of end devices, local users are more willing to convert their feature phones to smartphones, the trend that further increases the penetration rate of smartphones.

The functionality of wireless communication also enhances. Apart from voice communication and camera function, consumers look forward to rich multimedia applications such as dual camera shooting, video streaming, social networking, online gaming, virtual/augmented reality, etc. In order to meet consumers' need and support more applications, the specifications and features of smartphones and tablets continue to be upgraded. For example, deca-core CPUs have more powerful computing capability and Tri-Cluster architecture can provide more efficient task allocations for optimum performance and extended battery life. Furthermore, market expects to see wireless communication technologies to provide more functions. Apart from basic functions such as Wi-Fi, GPS, and Bluetooth, the demand for fast charging and wireless charging is also increasing and WiFi is upgraded to 11ac. The growing trend enables handset manufacturers to launch a wide range of smartphones and tablets to stimulate end market demand.

Other than smartphones and tablets, with the rise of Internet of Things (IoT) concept, new applications with Wi-Fi, GPS and Bluetooth are also boosting the market demand for wireless communications, including AI smart home products, smart wearables, smart home appliances, car fleet management, smart meters, etc. The new devices further drive market demand for wireless communication. Looking forward, the emergence of low power wide area (LPWA) technology will inspire broader IoT applications and it is also one of MediaTek's key focuses.

The rapidly-growing wireless communication market comes with intense competition, primarily from semiconductor companies in the US, Europe, Mainland China and Taiwan. Not only will semiconductor companies have to keep up with new technology standards and launch more advanced products to compete but also need to compete on cost optimization and technical support to offer the best total solutions to customers.

For smartphone products, MediaTek establishes partnerships with worldwide operators and distribution channels to aggressively expand global market as well as develop 4G and 5G mobile communication technologies to make our product portfolio more comprehensive. For feature phones, MediaTek continues our efforts in integrating more features into products to achieve a higher level of customization and differentiation for customers. On the tablet front, MediaTek further optimizes multimedia functions and enhances performance to expand market size. As for Bluetooth, WLAN, GPS, NFC, fast charging, wireless charging, and other peripheral chips, MediaTek will strengthen product competitiveness by supporting the latest standards and continue to expand to other consumer electronic platforms such as AI smart home products, smart wearables, smart home appliances, game consoles, TVs, set-top boxes, etc.

B. Digital TV Products

Global digital TV shipment growth is slowing down. However, with Ultra High Definition (UHD) becoming a mature technology, the penetration rate of UHD TV is increasing and the demand for large-size TVs is growing. After the introduction of coding and decoding specifications for UHD TVs, content providers, TV operators, and video streaming services providers are aggressively preparing for UHD videos and expect further UHD TV sales growth. With more mature panel technologies in wide color gamut and high brightness, TV manufactures launch High Dynamic Range (HDR) TV products one after another.

MediaTek leads the industry in launching multi-core smart TV SoCs and cooperates with Google on Android TVs which have been adopted by various international brands. Thus, MediaTek can maintain our market-leading position.

C. Digital Consumer Products

Content-rich online video and audio streaming services gradually replace traditional DVD players. Along with the popularity of OTT Boxes and smart TV, consumers are changing their ways of enjoying movies.

With the support of Internet access and online streaming as well as 4K and HDR for high-end products, MediaTek's Blu-ray chipsets are able to ensure sales stability, despite the decreasing market demand for DVD players.

D. Optical Storage Products

The PC industry changes rapidly. The emergence of ultra-thin notebook and tablets without adoption of optical discs and the popularity of cloud storage applications compress the optical disc market upside.

DVD-Rewritable, the existing main optical storage product, is a mature product. MediaTek maintains a high market share by enhancing our core competitiveness and customer services.

E. Broadband Networking Products

The global broadband industry continues to grow, thanks to the increasing number of broadband users. According to research firms, at the end of fourth quarter 2016, there are more than 800 million global broadband users with an annual growth rate of 5%. Among them, more than 290 million users are in Mainland China and the mainstream technology is xPON, which accounts for 77% of total China broadband market. Thus, China is the largest xPON market, globally.

With the trend of FTTH, many countries accelerate the deployment of xPON, including Central and South America, Southeast Asia and India. The fast xPON development in China with tens of millions of installation lowered the equipment cost of xPON. In recent years, the growth of PON in export markets is heating up and contributes the next market growth momentum.

F. Analog Products

Nowadays, with digital electronic system becoming the market mainstream, market demand on analog ICs does not decrease but increase as all digital electronic systems require data and signals' input/output and transition. Analog ICs are in charge of information transmitting between users and machines. As a result, the applications of analog ICs are very broad, including computers and their peripheral applications, communications, automotives, consumer electronics and new applications such as smart home, IoT, etc. Almost all electronic systems are equipped with analog ICs.

1.3. Technology and R&D

1.3.1. R&D Spending

MediaTek's R&D spending in 2016 was NT\$55,685,244 thousand, and from January 1st 2017 to the printing date of this annual report, the R&D spending was NT\$16,419,038 thousand.

1.3.2. Developed Technologies or Products in the Last Fiscal Year and Year-to-Date

- A. Highly integrated GSM/GPRS/WCDMA/TD-SCDMA SoCs for multimedia phones;
- B. Highly integrated LTE chipsets;
- C. Highly integrated tablet chipsets;

- D. Highly integrated wearable device chipsets;
- E. Highly integrated smart home connectivity chips;
- F. Highly integrated WLAN SoCs;
- G. High performance/cost NFC chips;
- H. High performance/cost multifunction wireless communication SoC;
- I. Multi-mode wireless charging chips;
- J. Highly integrated Ultra HD smart TV chipsets;
- K. Highly integrated UHG chipsets;
- L. Highly integrated passive optical network (xPON) chipsets;
- M. Highly integrated VDSL 35B chipsets;
- N. Power management and controller chipsets for various electronics and
- O. USB PD Type-C controller chipsets

1.4. Long- and Short-Term Business Development Plans

1.4.1. Short-Term Business Development Plans

- A. Continue to develop competitive mainstream products, adopt more advanced process nodes and optimize circuit design to meet the market trend and customers demand.
- B. Combine with newly-acquired companies' product offerings and existing platform advantages to provide customers with total solutions. Fully understand and serve customers and facilitate customers to time-to-market to seize market opportunities.
- C. Enhance existing long-term partnerships with customers/operators as well as expand customer base and market share by implementing efficient marketing strategies. Meanwhile, work closely with relevant partners in every industry such as operators to expand business opportunities.
- D. Maintain close relationship with supply chain including foundries, packaging companies and testing houses. Ensure real-time communications with customers and manufacturing partners to respond to market changes quickly and effectively, secure sufficient capacity, and ensure smooth delivery as well as AR/inventory management.
- E. Sustain systematic and flexible financial systems to support all R&D and sales activities.

1.4.2. Long-Term Business Development Plans

- A. Participate actively in global standard committees and strengthen long-term cooperation with international customers to develop diversified business opportunities.
- B. Continue to develop innovative products and maintain a market-leading position in different markets. Continue to enhance product competitiveness through new product developments, product design optimization, cost control and so on.
- C. Continue to work closely with the supply chain and further develop cost-effective solutions.
- D. Recruit and retain global talents with different expertise for future products and market development. Establish complete internal training systems to share knowledge and experiences.
- E. Establish comprehensive global management systems to ensure effective internal and external communications. Sustain good relationship with capital markets and seek targets for further sales developments.

2. Market, Production, and Sales Outlook

2.1. Market Analyst

2.1.1. Major Markets

Region	2016	
	Sales (NT\$ thousands)	Percentage
Export sales	255,133,064	92.60%
Domestic sales	20,378,650	7.40%
Total	275,511,714	100%

2.1.2. Market Share

According to a report Gartner published in January 2017, the worldwide semiconductor market revenue was US\$339.7 billion in 2016; MediaTek's market share was 2.6% and ranked No.10 worldwide.

2.1.3. Major Markets

A. Wireless Communications Products

Thanks to the increasing popularity of 4G network as well as the initial development of 5G technologies, the wireless communication industry is expected to continue to grow with smartphones as the mainstream product. In addition, customers emphasize on product functions, which drives the demand for various wireless communication chipsets such as Bluetooth, WLAN, GPS, fast charging and wireless charging. Other than consumer electronics, consumers anticipate automotive electronics to equip with wireless communication functionality to realize the functions of Internet of Vehicles and autonomous driving. Market expects automotive electronics to become one of the most important growth drivers in wireless communication markets.

B. Digital TV Products

TV manufacturers request higher definition and fidelity, especially for HDR TV products which users can enjoy high contrast media entertainment. With smart function embedded in TV, users can surf the Internet, watch video on demand, install applications or games and voice search as well as be controlled by smart devices to enhance user experience.

C. Digital Consumer Products

MediaTek has established leading positions in the DVD and Blu-ray player IC market. For the Blu-ray DVD player market, the popularity of online video/audio streaming services provide consumers more sources of high definition content choices beyond the traditional disc rental. Blu-ray can be regarded as a streaming OTT Box with disc broadcast functionality so as to maintain its customer's attention. Moreover, since the popularity of high bandwidth network takes time, Blu-ray player is still the best device to enjoy high definition Ultra HD video in the recent years. MediaTek expects to maintain the leading position by continuously developing next generation products as well as establishing long-term relationships with important electronic consumer companies.

D. Optical Storage Products

MediaTek is currently the world's only fabless company that can provide complete product portfolio, ranging from DVD-ROM, DVD-Rewritable to Blu-ray Disc products. In recent years, economics of scale has been a key success factor in the optical storage industry. MediaTek with complete product portfolio is committed to maintaining a close relationship with customers by offering better services to maintain our market leadership.

E. Broadband Networking

Mainland China promoted FTTH technology as its major network infrastructure and the policy resulted in fast adoption of FTTH and decreasing ADSL sales. Optical fiber is now taking a large share at expense of copper-made wire products. MediaTek xPON solutions passed China major three operators and provinces drop test and

started to deliver with increasing sale. With our growing shares in China market, customers' inquiry from emerging market is also increasing and emerging market is expected to become our next growth target. In the VDSL2 market, after MediaTek made a breakthrough in overseas telecommunication operators in 2016, the latest generation of integrated VDSL2 terminal solutions has succeeded in winning procurement projects. Going forward, we will expand our exposure to Western Europe market.

F. Analog Products

According to Databeans, global analog IC market size was US\$48.9 billion in 2016, accounting for 15% of global semiconductor market. The research institute also predicted that global analog IC market size will reach to US\$55.6 billion in 2017 and the growth is expected to be 14% and 7% in 2017 and 2018, respectively. The estimate shows that analog IC market has been growing steadily. MediaTek will continue to leverage the supports from Taiwan foundry vendors and our advantages from accumulated experiences in analog IC design to expand business in the industry.

2.1.4. Competitive Advantage

A. Outstanding Team

MediaTek's management team has been working together in the multimedia industry for years and has grown with the participation of outstanding talents. Many of our staff are senior IC design and system engineers. The exceptional quality of human resources and team spirit developed through long-term cooperation are the key factors that have enabled MediaTek to cultivate a great culture for the company's long-term prosperity and deliver continuous innovation.

B. Strength in System-on-a-Chip (SoC) Development

SoC has been a hot topic of the technology industry for many years. MediaTek has a large pool of talented IC and system designers. Through their joint efforts, MediaTek has been able to launch competitive SoC products every year.

2.1.5 Favorable Developments, Unfavorable Factors and Countermeasures

Favorable Developments

A. Smartphones and Tablet Become Mainstream with a New Wave of Replacement Demand Stimulated by 4G Communication Technologies Upgrade

Mobile devices have become the indispensable products in consumers' daily life. Consumers turn to request devices with more functions, the trend that drives the replacement cycle and the growth of relevant semiconductor industries. MediaTek has continuously developed in mobile phones and tablets areas to provide our customers with complete and reliable integrated solutions. The market continuously requires richer and more innovative multimedia features, which boosts the demand for Bluetooth, FM, WLAN, GPS, fast charging, wireless charging, and peripheral ICs. MediaTek is able to leverage and integrate wireless communication technologies with the solid multimedia foundations and other MediaTek's products to shorten our customers' design cycle by providing highly-integrated total solutions.

Additionally, MediaTek has aggressively invested in 4G technologies upgrade and 5G technologies development, continuously meeting market demand for mobile networks upgrade. It is expected that the high and smooth speed of communication technologies will bring mobile users more optimized user experience and boost the growth of related wireless communication chipsets.

B. High Definition and Fidelity UHD TVs to Become the Trend

TV manufacturers request higher definition and fidelity, especially for HDR TV products which enable users to enjoy high contrast media entertainment. With smart function embedded in TV, users can surf the Internet, watch video on demand, install applications or games and voice search as well as be controlled by smart devices to enhance user experience.

MediaTek is the world's leading TV SoC vendor and continues to develop the best solutions which can meet the market trend such as high definition and fidelity smart TV SoC to satisfy customer and market demand.

C. xPON and VDSL to Become Growth Drivers for the Broadband Market

xPON and VDSL2 have been replacing ADSL, accounting for 85% of market share in 2016. The overall wired broadband market continues to grow steadily.

MediaTek has complete product portfolio of xPON and VDSL across the board and can provide customers with the most comprehensive and competitive products.

D. Analog Products Demand to Continue to Grow

High-frequency wireless applications become broader and the demand for linear regulator with low noise, ultralow dropout and low power consumption is expected to grow sharply. In addition, the demand for power management and battery management are also rising along with the environmental awareness. These trends are expected to boost MediaTek's applications sales and developments.

E. Comprehensive IC Manufacturing Infrastructure in Taiwan

Taiwan has a well-developed IT industry and world leading IC manufacturing capability. Taiwan's outstanding semiconductor manufacturing system provides fast and efficient supply to allow us to fully meet its customers' needs.

Unfavorable Factors and Countermeasures

The IT industry moves at a fast pace and new technology may emerge at any time. Coupled with the relatively short product life cycle, the pricing pressures are always there. In the extremely competitive technology industry, MediaTek always gets prepared and has been intensively developing new products, enhancing competitiveness, and providing better products from high-quality employees. In addition to continuing to market the existing products, MediaTek also works proactively on next generation products. MediaTek aims to increase our competitiveness by bringing high-quality products to the market ahead of our competitors.

2.2 Key Product Applications and Manufacturing Processes

2.2.1 Key Product Applications

MediaTek's major products include chipsets for wireless communication, digital TV, consumer electronics, optical storage, broadband networking and analog products for applications such as mobiles, digital TVs, PCs, various consumer electronics and wearables. Key product applications are listed below:

A. Wireless Communication Products

MediaTek's wireless communication chipsets are mainly used in entry-level, mainstream and mid/high end FDD-LTE/ TDD-LTE/ WCDMA/ TD-SCDMA/ CDMA2000/ EVDO/ EDGE smartphones and tablets as well as GSM/ GPRS/ EDGE/ WCDMA/ HSPA/ TD-SCDMA feature phones. Peripheral chips such as Bluetooth, WLAN, GPS, NFC and wireless charging are mainly used in mobile phones, but can also be used in other applications such as routers, TVs, set-up-boxes, smart wearables, smart home appliances, game consoles, notebooks and portable navigation devices, etc.

B. Digital TV Products

Digital TV decoder chips and demodulator chips are used to receive and decode digital TV signals from either satellite, terrestrial or cable for video as well as video on demand via Ethernet and Wi-Fi. MediaTek provides users with the best in audio and video enjoyment by strengthening the processing engine of image quality.

C. Digital Consumer Products

DVD player SoCs are mainly used in DVD players of digital home appliances. BD-Player SoCs are mainly used in higher resolution and richer functionality next-generation Blu-ray DVD players.

D. Optical Storage Products

DVD-ROM SoCs are mainly used in storage devices of game consoles and multimedia PC. DVD-Rewritable SoCs are mainly used in storage devices of high-end PCs and recordable DVD players. BD-Player SoCs are mainly used in storage devices of game consoles, high-end PCs and high-end TVs with embedded BD-Player.

E. Broadband Networking Products

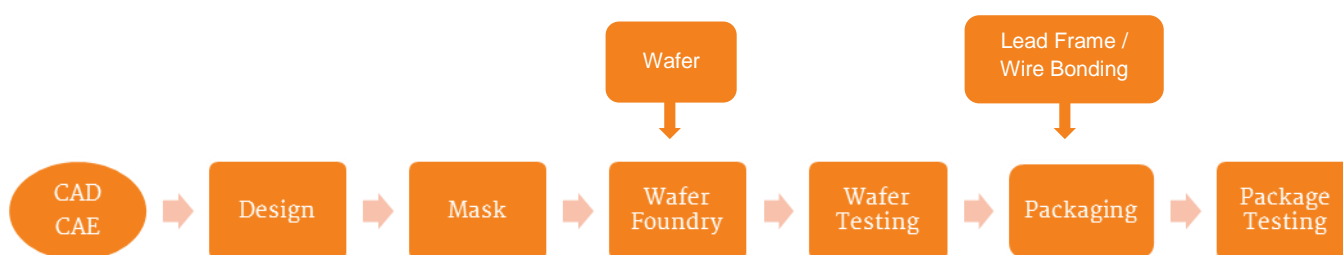
xDSL chipsets are mainly used in digital modems which can be further categorized into the follows by functionality: DSL Modem (purely for bridging purpose), Wired DSL Router (DSL Modem integrating routing function), Wireless DSL Gateway (DSL home gateway integrating WLAN function) and IAD Gateway (DSL home gateway integrating VoIP function). Besides, xPON chipsets are used in fiber-optic modems to provide aforementioned modem/wireless/IAD functions.

G. Analog Products

Power management chipsets are the core components to provide stable electric current and voltage to electronics. The required functions of power management differ from devices to devices, including voltage detecting systems, current protection, power supply for distinct voltages or AC/DC transition, integrated power management for multi-set of power supply circuits and driver chipsets for system and electronic components.

2.2.2. Key Product Manufacturing Process

The chart below shows the process of developing an IC product:



A. Design Process

After the product specifications being defined, IC design engineers will start doing the circuit design with computer-aided design (CAD) tools. Their job is to do a blueprint that can be placed into production.



B. Photomask Process

Finished IC circuit designs are stored in a tape as a database for a photomask company to produce the mask sets. There are four stages in the manufacturing of mask: Glass Process, Cr Film Coating, Resist Coating and Shipping. The finished masks are then delivered to a wafer foundry.

C. Wafer Foundry Process

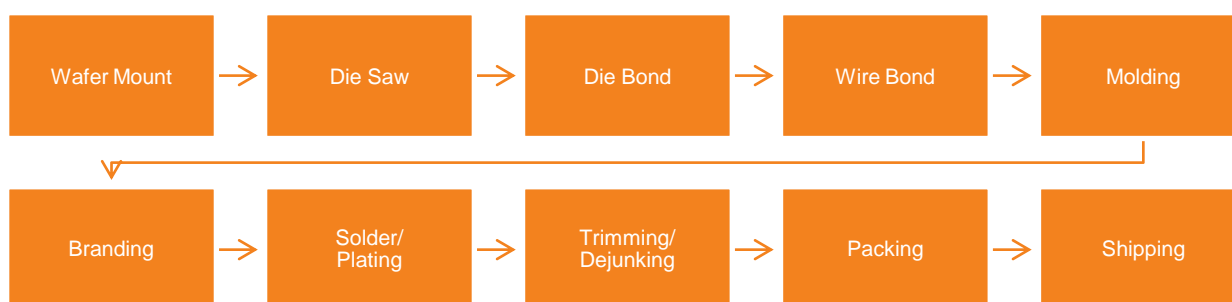
Wafer fabrication is outsourced to foundries. The wafer manufacturing process begins by entering a module and then going through etching, photo, thin film and diffusion with masks. The finished wafers must be tested before shipping to the next stage.

D. Wafer Testing Process

A finished wafer must be checked for conformity in its electronic functions. Non-functional dies will be marked and sorted out later.

E. Packaging Process

The good dies on the wafer will go through the packaging process as indicated below:



2.3. Supply of Essential Raw Materials

Wafers are MediaTek's major raw materials and they are mainly procured from MediaTek's foundry partners, including Taiwan Semiconductor Manufacturing Limited Company (TSMC), United Microelectronics Corporation (UMC), and GlobalFoundries. These suppliers have been able to maintain good quality and process capability, satisfying MediaTek's requirements. MediaTek negotiates pricing with suppliers according to the market supply and demand conditions. It also reviews the production and service quality periodically with its suppliers. MediaTek not only continues to strengthen its cooperation with existing manufacturing partners, but also actively surveys and contacts other potential suppliers to ensure secured supply, high quality, and low cost procurement.

2.4. Key Supplies & Customers

2.4.1. Key Suppliers

Names of suppliers accounting for more than 10% of the total purchase in any of the previous two years:

Unit: NT\$ thousands / %

2015			2016			2017.Q1					
Supplier	Amount Purchased	% of Total Purchase	Relation	Supplier	Amount Purchased	% of Total Purchase	Relation	Supplier	Amount Purchased	% of Total Purchase	Relation
Supplier A	56,334,636	66.19%	Not Related Parties	Supplier A	86,759,626	63.02%	Not Related Parties	Supplier A	16,177,339	51.14%	Not Related Parties
-	-	-	-	Supplier B	15,860,644	11.52%	Not Related Parties	Supplier C	5,552,168	17.55%	Not Related Parties
-	-	-	-	-	-	-	-	Supplier B	3,987,118	12.60%	Not Related Parties
Others	28,775,700	33.81%		Others	35,041,646	25.46%		Others	5,916,272	18.71%	
Total	85,110,335	100.00%		Total	137,661,916	100.00%		Total	31,632,897	100.00%	

The key supplier changes primarily due to product mix change

2.4.2. Key Customers

Names of customers accounting for more than 10% of the total sales in any of the previous two years:

Unit: NT\$ thousands / %

2015			2016			2017.Q1					
Customer	Sales	% of Total Revenue	Relation	Customer	Sales	% of Total Revenue	Relation	Customer	Sales	% of Total Revenue	Relation
-	-	-	-	-	-	-	-	-	-	-	-
Others (Note)	213,255,240	100.00%		Others (Note)	275,511,714	100.00%		Others (Note)	56,082,721	100.00%	
Total	213,255,240	100.00%		Total	275,511,714	100.00%		Total	56,082,721	100.00%	

Note: There are not any customers for more than 10% of the total sales in 2015, 2016 and 2017 Q1.

2.5. Production Volume and Value in the Past Two Years

Unit: thousand pieces / NT\$ thousands

	2015				2016		
	Production Capacity	Production Volume	Production Value	Production Capacity	Production Volume	Production Value	
	Multimedia and Handset Chipsets	Not applicable (Note)	3,863,067	121,778,389	Not applicable (Note)	7,572,628	180,706,352

Note: MediaTek outsourced manufacturing to wafer foundries, packaging houses and testing companies. There's no in-house production capacity.

2.6. Sales Volume and Value in the Past Two Years

Unit: thousand pieces / NT\$ thousands

	2015				2016			
	Domestic Sales		Export Sales		Domestic Sales		Export Sales	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Multimedia and handset Chipsets	447,822	10,984,402	3,085,103	200,991,838	1,741,036	20,358,101	5,705,962	253,576,165
Others	Not applicable	23,784	Not applicable	1,255,216	Not applicable	20,549	Not applicable	1,556,899
Total	447,822	11,008,186	3,085,103	202,247,054	1,741,036	20,378,650	5,705,962	255,133,064

3. Employees

		2015	2016	2017 (As of April 30)
		Number of Employees	Management	1,008
	R&D	13,243	13,849	14,206
	Sales & Marketing	644	672	688
	Manufacturing	369	422	420
	Total	15,264	16,005	16,409
Average Age		34	34	34
Average Years of Service		4.5	4.7	4.8
Education	Doctoral	5.24%	5.03%	4.96%
	Master	65.35%	65.89%	65.85%
	University & College	28.79%	28.47%	28.45%
	High School	0.62%	0.61%	0.74%
	Total	100.00%	100.00%	100.00%

4. Material Contracts

Agreement Type	Counterparty	Term	Summary	Restrictions
Licensing & Settlement	ESS Technology International, Inc. and ESS Technology, Inc.	Permanently effective from Jun. 11, 2003	MediaTek licensed ESS technology and settled the legal dispute.	None
Licensing	Zoran Corporation and Oak Technology, Inc	Permanently effective from Jan. 25, 2006	MediaTek licensed Zoran's certain IP and its derivative IP.	None
Settlement	British Telecommunication (BT)	Jun. 2010	MediaTek has settled the litigation and signed a settlement agreement with BT. BT shall file for dismissal of the lawsuit and shall forever release MediaTek and its subsidiaries from any claims of infringement of the patent asserted in the litigation and its related foreign counterparts, continuations, etc. worldwide.	None
Licensing	NTT DOCOMO Inc.	From Jul. 2010	MediaTek licensed NTT DOCOMO's LTE technology.	None
Patent settlement and licensing	Rambus Inc	From Mar. 5, 2012	Rambus agreed to license relevant patents for MediaTek's various products and filed for dismissal of all lawsuits outstanding.	None
M&A	MStar Semiconductor, Inc.	Aug. 14, 2012	Merger agreement	Article No.13 in the merger agreement: This Agreement shall become effective after approval by the respective shareholders' meeting of both parties in accordance with related laws and regulations. Nonetheless, prior to the resolution of both parties' shareholders meeting, the obligation to take action or take no action as specified in this Agreement shall have a binding effect, and both parties shall perform such obligation based on the principle of honesty and good faith.
Patent Settlement and Licensing	Freescale Semiconductor, Ltd.	From Sep. 22, 2014	Both parties accomplished a specified patent cross-licensing agreement and agreed to file for dismissal of all patent lawsuits by both sides.	None
Real Estate	Jiangsu Wannian Construction Group Ltd., United Integrated Services, Shanghai Zhen Nan Engineering Supervision Co., Ltd.	From Jan. 30, 2015	MediaTek (Heifei) Inc. engaged to build new office building on rented land.	None
M&A	ILI Technology Corp.	From Aug. 26, 2015	Mrise Technology Inc. consolidated Ili Technology Corp. with NT\$51 per share. Mrise is the surviving company.	None
Patent Settlement and Licensing	Commonwealth Scientific and Industrial Research Organization (CSIRO)	From Oct. 16, 2015	CSIRO agreed to license relevant patents for MediaTek and filed for dismissal of all lawsuits outstanding.	None
M&A	Richtek Technology Corp.	From Jan. 19, 2016	Hsu-Si Investment Corp. acquired all Richtek Technology Corp's issued shares by NT\$195 per share.	None
Real Estate	Epistar Corp.	From Feb. 1, 2016	MediaTek purchased office building.	None
Real Estate	Integrated Circuit Solution Inc.	From Feb. 17, 2016	Changis Technology Corp. purchased office building.	None
Investment	NavInfo Co.	From May 13, 2016	MediaTek signed a letter of intent with NavInfo Co., Ltd. and agreed to invest no more than USD100M to jointly develop and cultivate the automotive IC and internet of vehicles market with NavInfo.	None
Strategic Agreement	NavInfo Co.	From May 13, 2016	MediaTek signed a strategic cooperation agreement with NavInfo Co., Ltd.	None
Investment and share disposal	NavInfo Co.	From May 13, 2016	Ralink Technology (Samoa) Corp. disposed around 82.9% of AutoChips shareholding.	None
Real Estate	Futsu Construction Co., Ltd.	From Jun 30, 2016	The phase I of construction process of MediaTek D building office in Hsinchu Science Park.	None
Investment and share acquisition	Mapbar Technology Limited (BVI)	From Nov. 4, 2016	Gaintech Co. Limited invested no more than USD100M to acquire 35%~49% of Mapbar Technology Limited (BVI) shares.	None

VI. Corporate Social Responsibility

1. Corporate Promise

1.1. Employee Relations

MediaTek has long been devoted to pursuing to build a healthy relationship with its employees. The designated Employee Relations Department is responsible for planning, promoting with managers, and implementing initiatives. We believe that positive employee relationship is one of the key reasons for MediaTek to continuously deliver decent performance. The framework for how MediaTek manages its employee relations is as follows:

A. Communication with Employees

MediaTek's communication platform is established by a variety of communication channels, managers' assistants and communication effectiveness evaluation. MediaTek has hosted communications conferences and established an online communication platform, in addition to communications with supervisors from different levels to meet the objectives of "understanding Company operations", "getting to know your supervisors", "improving the work environment" and "collective effort". Our communications matrix structure can effectively assist employees to understand the Company, realize Company policies and solve problems regarding colleagues and work environment. In order to listen to employees' opinions and have employees understand important Company policies and event promotions, internal electronic periodical, Hot Paper, is issued on a monthly basis and open around the clock communication platform was set to respond to employees' questions in a timely manner. In addition, regular face-to-face meetings are held for employee representatives to meet with top management to discuss and respond major topics to achieve a better bilateral understandings between employees and the Company and thus to reach cohesiveness.

B. Employee Cohesiveness

Beside the formal channels of communication, MediaTek also hosts different types of events such as company-event (year-end parties, anniversaries and family days), holiday celebrations (Engineers' Day, Mid-Autumn Festival and Christmas), departmental activities (department's Family Days, department outings and joint birthday celebrations), group outings, club events, etc. These activities are designed to fit needs of different employee groups so that we can have more participation from employees and their families and strengthen the interaction and connection between employees.

Since MediaTek began promoting various employee clubs, there have been 45 clubs running in total, including a newly established women's basketball club in 2017. With more than forty percent of our employees belonging to at least one club, MediaTek effectively promotes the expansion of these clubs through company reimbursements and allowances. These clubs are highly valued as they create employee cohesion and a sense of community.

C. Work Environment Safety and Employee Healthcare

Each employee can refer to labor-health-and-safety-related regulations and documents which are posted on the Company intranet. The environmental management council was set up to deliver disaster prevention concepts to employees.

MediaTek firmly believes that "healthy employees are essential to high productivity". In terms of physical health, MediaTek has provided high-quality health checks and post-check consultations to its employees for more than eleven years. Higher-risk groups such as senior managers, female staff and testing staff receive additional testing items such as eyesight checks, mammograms, cervical smear tests, blood lead concentration tests, etc. The focus is placed on preventive care so that effective treatments can be given before actual symptoms occur. On the other hand, professional doctors' health consulting service and clinical services are provided to offer employees reliable medical information. Also, MediaTek provided each department exclusive

medical session so that executives could give appropriate medical information from employees' practical demand.

Moreover, as for physical wellbeing enhancement, employees are encouraged to use onsite fitness centers or participate in cross-departmental competitions to cultivate the habit of regular exercise. MediaTek also designs different programs targeting at different employees who regularly or rarely exercise. This type of initiative is aimed at helping the staff develop regular exercise routines. The utilization rate for the various sports facilities at the Health & Lifestyle Center (including a fitness center, badminton court, basketball court, table tennis room and aerobics room) reaches to 100% in the evenings. MediaTek started to offer additional service hours at noon and on holidays in 2014 due to the growing number of employees and sports demand. We also hire blind masseurs recommended by Hsinchu and Taipei Association of Blind Masseurs whose services are provided inside the fitness center.

On the aspect of mental healthcare, the Company not only provides physical emergency relief measure to relieve the mental strain of employees encountering emergency matters but also holds mental health lectures and an assessment service based on the Mental Stress Index. We have also signed contracts with professional Employee Assistance Program to let employees acquire professional consultancy and assistance without pressure, under the conditions of privacy protection.

D. Employee Services

Employee services include not only MediaTek's overall policies and software/hardware facilities, but also an employee-friendly working environment. Such an environment would also meet the employees' personal needs. There are authorized stores, ticket/gift certificate ordering services and concierge services that help employees plan for wedding parties/baby showers. These thoughtful services help employees save a great deal of time and stress. Meanwhile, employees can also understand the comprehensive caring culture within MediaTek.

E. Care for the Employees and Their Families

MediaTek not only established employee-friendly relationships policy and environment but also assign dedicated Employee Relations Department to provide one-on-one care and assistance to individual employee issues and needs. The services range from emergency assistance (such as car accidents or family emergencies) and psychological counseling/referral. Employee care systems (such as online mental health enhancement platform) and HR Business Partner's deep observation/solicitude on departments identify departments with abnormal results to conduct "Department Morale Survey", focus group interviews, and random interviews to conclude the physical reasons and improvement actions and thus help the department take necessary rectification measures to solve the problems.

Also, MediaTek understands that behind every hard-working employee, there is a supportive family and thus, takes the initiatives to expand company resources to family caring areas. "Family Network" is established to help employee families understand the company, build a employee families community and provide information such as medical care, childcare and education, apartment rental and house buying, etc. There is also a family activity room in the Health-and-Life-Style Center where families can organize their own classes and create a strong bond amongst the community. The Company's active initiatives are expected to create positive feedback from employees and communities. Take 2016 for example, there were eight classes organized, including art class, dance class, kids' English class and adult yoga class, with 308 people participating.

F. Employee Welfare Committee

MediaTek has requested each department to nominate a representative to form an Employee Welfare Committee in accordance to the Organization Regulations on Employee Welfare Committee stipulated by the Ministry of Labor. The purpose of this committee is to oversee the Employee Welfare Committee funds and to promote various benefits. MediaTek has always set aside a higher percentage of the revenue than what is stipulated by law to sponsor Employee Welfare Committee, allowing the committee to offer more benefits. At the same time, MediaTek has also taken the cohesiveness of each department and flexible selection of personal benefits into account, such as sponsoring departmental events reimbursements and encouraging events that includes families. Also, MediaTek offers employee's personal travel allowances. Employees can choose to use their travel allowances on company-held group travel or self-planning trip. Since the Committee's inception,

the utilization rate of various welfare allowances have exceeded 95%, which reflects the true spirit of the Employee's Welfare Committee.

G. Continuing Education and Training System

MediaTek provides a comprehensive training system to provide a challenging and learning environment to show employees' potential and grow the Company's overall capability. There are various types of training, each based on the employee's rank and nature of work:

- a. **Management Training System:** Helps managers develop their training blueprint based on the skills required for their positions.
- b. **Orientation:** Orientation hosted by Human Resources Department helps new staff learn company policies, corporate culture, working environment, etc. in order to fit in the workplace.
- c. **General Training:** Fundamental training sessions for employees in all departments and job functions to meet regulatory and company policy requirements.
- d. **Technical Engineering Training:** Provide various professional programs for engineers based on assignments they work on and different stages the Company is at.
- e. **Professional Knowledge Training:** Training designed for specific profession development according to different specialty such as environmental safety, finance and accounting, human resources, information technology, intellectual property, marketing & sales, quality assurance management, etc.
- f. **Personal Effectiveness Training:** Help employees utilize personal skills and knowledge, equip employees with capabilities in multiple functions and enhance working effectiveness.
- g. **Language Training:** Provide different levels of English learning classes, based on employees' TOEIC scores, for them to utilize in working environment and to enhance the Company's global competitiveness.
- h. **External Training:** Enhance employee quality and skills to help business development and complement the insufficiency of internal trainings.

Results of education and training in the latest fiscal year as follows:

Categories	2016				Jan. 1 to Apr. 30, 2017			
	Number of classes	Numbers of attendees	Hours	Total cost (NT\$)	Number of classes	Numbers of attendees	Hours	Total cost (NT\$)
Management Training System	59	1,341	7,765	35,198 thousand	16	462	3,249	8,556 thousand
General Training	62	909	3,098		6	144	521	
Professional Knowledge Training	192	3,802	7,738		18	380	778	
Personal effectiveness	93	2,675	19,435		33	970	3,918	
Language training	34	849	20,063		13	402	10,408	
External training	391	472	7,027		97	112	1,662	
Total	831	10,048	65,126		183	2,470	20,536	

H. Retirement system

MediaTek's retirement system was designed in accordance to the Labor Standards Law and the Labor Pension Act. The retirement system makes monthly reserve deposits into the funds held at the Supervisory Committee on Labor Retirement Funds account. Since the promulgation of the Labor Pension Act on July 1st of 2005, employees have been given the option to stay with the Old System or the New System (but keep the number of working years). For employees who chose the New System, the Company makes monthly reserves of at least 6% of the employee's monthly salary statements in accordance with Financial Accounting Standard No.19 "Employer's Accounting for Pension Plans", provides actuarial reports and recognizes the reserve as a pension liability on the balance sheet.

1.2. Supplier Management

As a responsible corporate citizen, MediaTek is committed to implementing environmental-friendly and carbon-reducing initiatives on the basis that the quality of products and services is unchanged. MediaTek has established the "MediaTek Environment-Friendly and Carbon-Reducing Products Policy," which encompasses four major areas of demands for its suppliers.

This policy demands suppliers to make changes in the areas of design, material, transport, and minor details. Descriptions of each item are as follows:

- a. **Design:** Simplifying product structure through green design in order to reduce the use of consumables and the use of pure gold in IC packaging.
- b. **Material:** The entire product line should meet the European Directive on the “Restriction of the Use of Certain Hazardous Substances.” The manufacturing process should incorporate halogen-free material and reduce the use of chemicals.
- c. **Transport:** Using recyclable material and reducing the use of consumables during the process of loading and transporting ICs.
- d. **Minor Details:** Inspecting the IC manufacturing process to avoid excessive waste of resources such as water and electricity.

2. Social Participation

2.1. Social Contributions

2.1.1. Establish the MediaTek Fellowship

MediaTek eyes on school’s technology knowledge promotion and science education development. In order to promote academic technology research and encourage/help graduate students who have ambition to pursue a doctoral degree domestically, MediaTek Fellowship was established in 2002 to reward outstanding electric engineering and information technology graduate students to pursue a doctoral degree domestically to cultivate domestic technology research and education future talents and thus to enhance our country’s competitive edge of fundamental research in electronic technology.

Since 2002, 58 students have received the fellowship, each receiving NT\$35,000~NT\$50,000 per month for 48 months at most. The Fellowship allows the students to dedicate themselves to fundamental research. Some of the fellowship recipients have entered the industry or gone back to academia and begun making contributions in the field of research.

2.1.2. Partnership with Academia and Research Publications

Innovation is the key factor to drive a company’s sustainable growth. Continuous investments in advanced technology are necessary investments for company to compete globally. In 2016, MediaTek won “Taiwan Corporate Sustainability Awards 2016 – Electronics Industry” Gold Medal and received “Supply Chain Management Awards” and “Growth through Innovation Awards” for the first time. Meanwhile, MediaTek received “Outstanding Asia Pacific Semiconductor Company Award” by the Global Semiconductor Alliance (GSA) for the fifth consecutive year. The awards showed that our innovation culture and technologies competitiveness are highly recognized globally and domestically. MediaTek started to present innovative technologies papers in ISSCC (International Solid-State Circuit Conference) from 2004. In 2017, MediaTek had 10 papers being selected and it was a record that MediaTek is the only Taiwan company to have papers being selected for fourteen years consecutively.

Internally, MediaTek continues to invest in research and development. Externally, MediaTek puts lots of efforts on industry–academic collaborations and high-tech talent incubation. MediaTek’s industry–academic collaborations expenses amounted to nearly NT\$100 million in 2016. The "MediaTek-NTU Research Center," "MediaTek-NTHU Research Center," and "MediaTek-NCTU Research Center" that we have established at National Taiwan University (NTU), National Tsing Hua University (NTHU) and National Chiao Tung University (NCTU) respectively, undertake R&D of projects such as smart handheld devices, automotive, high-performance and low-power technologies, and packaging technology enhancements. Moreover, we also responded to government policies to leverage academia’s research capability to enable companies to conquer R&D difficulties. Thus, MediaTek has allocated nearly NT\$200 million in a three-year term to jointly apply with NTU for "Research of Forward-Oriented Next Generation of Mobile Telecommunications Key Terminal Technology", in which more than 30 professors and nearly 100 graduate students are devoted to the R&D of core technologies of “heterogeneous multi-core computing platforms” and “a new generation of mobile telecommunications”. MediaTek supported NCTU’s industry–academic collaborations project, “Three-

dimensional Communication and Network Technology and its Application on Smart Campus” with NT\$8 million per year and participated in key research on low latency communication technologies. We expect to help NCTU to realize smart campus by our technologies and move forward to smart city and smart country.

As for high-tech talent incubation, MediaTek also allocate funds to sponsor NTU and NCTU students via scholarship. In 2016, MediaTek responded to Principal of NCTU, Mr. Frank Chang, on “Return of Global Talent” and established MediaTek Junior Chair Professor under MediaTek Foundation to inject capital and to subsidize NCTU on oversea top talent recruitment.

As for the promotion in IoT industry, MediaTek has been actively co-holding the IoT development competition with R.O.C. Ministry of Economic Affairs with more than NT\$1 million of annual patronage for four years. In 2016, there were 154 teams with a total of up to 350 developers to create 109 excellent IoT-related products and to realize 30 creative prototypes. During the competition, MediaTek helped approximately 100 top universities’ professors to familiarize themselves with LinkIt development board to further enhance IoT practices in schools.

2.1.3. General Education on Sciences Promotion

MediaTek has invested in approximately NT\$200 million through MediaTek Foundation for 15 years to help elementary school students in remote regions and the actions include launching science camps and science fair, donating science education books and providing various and rich education sources at every education stage to encourage more students to move forward to technology field including sponsorship for high school students’ electronic engineer camps and scholarship for college students have helped around 140 thousand students. The actions also help technology industry on talent incubation, the foundation of Taiwan technology competitiveness that began from supporting the elementary students.

To encourage elementary school teachers and students to promote science and technology education in school and to provide rich resources to these people, we are working with elementary schools of every county and city and encouraging science enthusiasts, students and teachers alike to form groups or clubs to work on projects or conduct club activities. We hope this will increase interest in science in elementary schools and improve the problem-solving skills of the students. We encourage teachers and students to extensively absorb technology knowledge and develop the interest in deeply researching on technology field by “Popularizing Science through Reading Programs” and “Seed Teachers Workshop”.

In order to apply our core values to popularizing science and technology education, we are asking MediaTek fellows to become science and technology education volunteers and advisers who communicate with teachers and students at the winter science seed camp, giving them the industrial point of view and hopefully inspiring them to produce innovative science fair projects.

To advocate for scientific education in high school, MediaTek Foundation established the AaPaTo Honor Society in 2016 to enhance young students' interest and understanding in the technology field and promote scientific education, through which we can foster international technological talents. Currently, AaPaTo Honor Society has established chapters in HsinChu Senior High School, Taichung First Senior High School and Experimental High School at Hsinchu Science Park and its primary obligations include teaching technological applications, hosting science advocacy seminars and high school camps and promoting exchanges of science clubs in high schools in order to promote knowledge in technological fields.

AaPaTo Honor Society is primarily facilitated and led by multiple professors from NTCU's Department of Electronic Engineering. The backbone of this undertaking is full-time assistants, and students from Electronic Engineering programs and MediaTek volunteers would serve as seed teachers to undertake thematic teaching projects in various schools. In terms of promoting technological applications, MediaTek nurtures students' interest in technology by providing the IoT platform, MediaTek LinkIt™ to guide students to realize their innovative capability while attempting to develop and bring to life all types of imaginations and possible applications of IoT and wearable technologies.

2.1.4. Technology Disease Containment

MediaTek believes that the appropriate technology application can provide solution to social problems and thus, actively provides technology and resources among the collaboration with government, the public and the academia to maximize social benefit.

We allied with Tainan City Government, National Cheng Kung University (NCKU) and NCKU Hospital to form disease containment network which conducts dengue fever prevention by the combination of IoT technologies, data analysis, artificial intelligence deployment and public health specialty.

MediaTek has been caring social issues for a long time and devoted to technology public welfare in order to contribute to the community. We inject R&D talents, expenses and equipment to form a joint laboratory with NCKU. The target is not only to control the epidemic situation, increase the forecast accuracy and lower dengue fever threats on citizens but also to cultivate young talents of public health and technology disease containment through industry–academic collaborations and practical experiences on disease containment.

MediaTek’s core technologies can convert passive data collection to active ways. The deployment of IoT mosquito lamp can hugely lower the cost of disease containment, shorten the schedule and increase the accuracy. We expect the collaboration can enable technology containment in Taiwan to move forward to a global-leading stage.

2.1.5 IoT and campus safety

MediaTek cares about children’s campus safety and thus cooperated with NCTU on “Children’s Health and Safety Protection Project”, designing Koala smart devices, which were tailor-made for children and embedded the function of pedometer and timely track reporting system. Through Bluetooth-integrated MediaTek X20 platform smartphone, teachers can simultaneously connect and track sixteen devices via app to know students’ exercise situation and track on campus. MediaTek and NCTU jointly donated 120 sets to The Affiliated Experimental Elementary School of NTHU in 2016, expecting to build a healthy and safe growing environment to Taiwanese students and promote the ideas to more schools.

2.2. Community Involvement

2.2.1. Promoting Cultural Activities – Exclusive Sponsor for IC Radio Broadcasting Programs

MediaTek believes that great ideas and concepts may change the world. To support the founding philosophy of IC Radio Broadcasting of “I Care, I Can, I Change”, MediaTek has been the exclusive sponsor for two IC Radio Broadcasting programs for a long time. We hope the in-depth analysis of historical personage and clear allegorical lessons in the programs can deliver best practices based on history, positive value judgments and the inward reflections of listeners to improve society and community through the power of media by spreading positive messages. During the sharing process, the audience may cultivate independent judgments and society participation, take part in topics of interest proactively and develop civic identity with the aim to further enhance the quality of life.

2.2.2 Save a Life by Donating Blood – 2016 Blood Drive

“Save a Life by Donating Blood” was a blood drive broadcasted by media and promoted by MediaTek employees proactively. Since 2007, MediaTek employees have organized regular blood drives to the Hsinchu Blood Center during periods of low supply. In order to promote the spirit of “A gift that saves life” in 2016, MediaTek held three campaigns of blood donations and will remain committed to such activities in the future

2.2.3. Volunteer Team

MediaTek always encourages its employees to engage in various employee volunteer programs including interacting with the RenAi Special Education Center in 2003, planting organic vegetables with HuaKuang Special Education Center in 2004, participating greening, cleaning and arrangement of Morninglight School in 2005, hosting a MediaTek’s volunteer day in 2006, and providing different volunteer services in 2007. Since 2011, MediaTek has organized volunteer clubs to promote a volunteering spirit throughout the Company by caring for elders, visiting orphanage, taking part in love and care activities, accompanying disadvantaged children, etc. MediaTek continuously provides aid and care for disadvantaged groups and expands the spirit of social contribution actively through long-term volunteering services held by the employees. MediaTek has launched annual volunteering leave since 2015, encouraging employees’ participation to contribute to the society and care the groups in need. Moreover, going forward, MediaTek has long-term plans to organize employee volunteers to participate in general education on science, guided reading in remote countries and charitable events to contribute to the society.

2.2.4. Environmental Activities

MediaTek not only engages in public welfare business but also cares about environmental issues. It has been actively involved in various environmental activities such as personal cutlery for all employees and reduced use of disposable cutlery. In addition to internal activities, we also participate in many external activities. For example, the Company cooperated with non-government conservation organizations and held a tour of knowing native plants to encourage employees with their family to participate in activities of World Earth Day. The volunteer club also held clean mountain activities to appeal to colleagues to devote themselves to environmental protection.

3. Environmental Efforts

3.1. Long-Term and Short-Term Goals

3.1.1. Short-Term Environmental Goals

The company's short-term environmental goals are to implement green product design, packaging, and procurement to reduce waste in resources and energy, as well as participate in international environmental activities.

3.1.2. Mid-Term Environmental Goals

Mid-term environmental goals are to strengthen training in the areas of environment, safety and health. Employees are encouraged to reduce and recycle material and reduce their carbon footprint. The importance of occupational health and safety is also impressed upon the entire staff.

3.1.3. Long-Term Environmental Goals

Long-term environmental goals are to fully comply with regulatory environmental rules and to implement environment protection and occupational safety and sanitation system. Also, the Company regularly reviews the execution result and improves continuously.

3.2. MediaTek's Energy-Savings Measures and Results

MediaTek believes that being environmentally friendly and reducing the carbon footprint is part of its social responsibility. Some of the company's achievements in this area are as follows:

3.2.1. Efforts in energy reduction

A. Electric Power Saving Management

MediaTek changes the electricity bill's calculation basis from two stages to three stages, considers the trend of increasing electricity costs per kWh and the growing electricity load, reviews the difference of electricity expense impacted by electricity contact and electricity cost fluctuation and reviews the benefit of change the calculation basis to three stages. An annual saving in 2016 was approximately NT\$4.9 million.

B. IT Facility Air Conditioning Energy-Saving Management

MediaTek improves equipment room air conditioning environment and system control to reduce air conditioning waste. Also, it built new IT Facility with new energy-saving technology. An annual saving in 2016 was approximately NT\$7.42 million.

- a. MediaTek improves air conditioning circulation system and poor airtight environment in traditional IT facility and implements system control to reduce air conditioning waste. An annual saving in 2016 was approximately NT\$3.84 million.
- b. Datacenter equipment room is built by high power-saving equipment for newly-built high-density datacenter. Compared to the traditional equipment room, datacenter equipment room can save 2016 electricity cost of NT\$3.58 million, which is calculated by power usage effectiveness (PUE).

C. Plant Area Air Conditioning Energy-Saving Management

MediaTek selects energy-saving system equipment and modifies control system requirements to reduce air conditioning waste. An annual saving in 2016 was approximately NT\$3.40 million.

- a. Variable Air Volume (VAV) control system is selected to reduce a lot of air supply energy. Compared to traditional air conditioning systems, VAV control system can save 15%~30% more energy, which translates to about NT\$3 million of annual saving in 2016.
- b. Water chiller unit energy-saving management is implemented by adjusting environment temperature in a way that does not impact water chiller normal operation to reduce air conditioning running time and cooling water usage. An annual saving in was approximately NT\$400 thousand.

D. Lighting Energy-Saving Management

MediaTek selects energy-saving lighting equipment and modifies control system requirements to reduce electricity waste. Parking areas also depend on distinct lighting requirements of weekday and weekend to adopt proper power-saving measurement. An annual saving in 2016 was approximately NT\$2.24 million.

E. Equipment Improvement to Save Energy

MediaTek modified equipment for power-saving in 2016. It modified operation requirements of control system or hardware equipment to achieve energy-saving and reduce electricity waste. An annual saving in 2016 was approximately NT\$1.07 million.

The Company reduced 2,504 tons and 4,012 tons of carbon dioxide emissions in 2016 and 2015, respectively (a savings of 4,740,000 kWh and 7,700,000 kWh). The calculating standard of the aforementioned carbon dioxide emissions is based on the release of Bureau of Energy, Ministry of Economic Affairs. The 2016 statistics was based on 2015 electricity emission coefficient that 1 kWh of electricity emission is equal to 0.528 kilogram carbon dioxide and the 2015 statistics was based on 2014 electricity emission coefficient that stated 1 kWh of electricity emission is equal to 0.521 kilogram carbon dioxide.

3.2.2. Efforts in water saving

- A. The Company replaced traditional faucets with water-saving faucets. Usage of water is reduced by 30.78%, or about 240 tons per year.
- B. The Company implemented a rainwater collection storage tank. About 700 tons of rainwater is collected and reused for cooling the water towers and watering the plant.
- C. **Water Reduction:** Around 15 tons of condensed water from the company's air conditioners is reused for plant watering. Approximately 3,000 tons of condensed water is recycled each year.

3.2.3. Waste Management and Recycling:

For the purpose of achieving the maximum benefits of effective waste management and recycling, MediaTek has placed huge importance on the reduction of waste. We effectively sort out, recycle, re-use, and properly dispose waste. We continue to improve the impact storage, transportation, and processing of waste has on the environment. In order to effectively control the flow of waste, we have carefully selected qualified waste disposal and recycling suppliers, and we audit the legitimacy of the waste disposal process at random. These measures are taken by MediaTek to the responsibility of supervising waste management.

3.2.4. Others:

The Company continues to promote environment concepts and polices including using environmental tableware, saving computer power, recycling, echoing government and environmental groups' activities, etc.

3.3. Environment Safety Management

- A. Monitor the operation and safety of the company's fire extinguisher/suppression system, water/electricity system and air-conditioning system around the clock.
- B. Regular monthly safety check for the company's working environment and equipment/machinery rooms.

- C. Regular monthly labor safety and sanitation training for new employees.
- D. Employee fire extinguisher training should be held on an annual basis to assure every employee's ability to operate fire extinguishers in practice and to enhance their responsiveness in order to reduce any monetary losses sustained in case of fire.
- E. Regular annual audit for the company's ISO14001&OHSAS18001 conducted by SGS.
- F. Promote safety-related concepts and items on an ad-hoc basis.

VII. Financial Status, Operating Results and Status of Risk Management

1. Financial Status

1.1. Consolidated Report

Unit: NT\$ thousands

Item	2015	2016	Change	% of Change
Current Assets	214,873,175	220,277,570	5,404,395	3
Funds and Investments	22,813,731	36,970,720	14,156,989	62
Property, Plant and Equipment	34,390,077	36,857,740	2,467,663	7
Intangible Assets	75,430,673	72,014,554	(3,416,119)	(5)
Other Assets	3,742,000	4,591,188	849,188	23
Total Assets	351,249,656	370,711,772	19,462,116	6
Current Liabilities	101,266,471	119,328,266	18,061,795	18
Non-current Liabilities	2,896,300	4,720,628	1,824,328	63
Total Liabilities	104,162,771	124,048,894	19,886,123	19
Common Stock	15,715,837	15,821,122	105,285	1
Capital Surplus	88,354,178	89,815,356	1,461,178	2
Retained Earnings	128,508,763	126,952,601	(1,556,162)	(1)
Other Equity	7,904,918	12,245,801	4,340,883	55
Treasury Shares	(55,970)	(55,970)	-	-
Non-controlling Interest	6,659,159	1,883,968	(4,775,191)	(72)
Total Equity	247,086,885	246,662,878	(424,007)	(0)

Explanation for changes that exceed 20% and reached NT\$10 million in the past two years:

- (1) Increase in funds and investments: Mainly because investment in Shenzhen Huiding Technology Co., Ltd. accounted for using the equity method was reclassified to available-for-sale financial assets as the Company lost significant influence over it.
- (2) Increase in other assets: Mainly due to increase in investment property, deferred tax assets and long-term lease receivables.
- (3) Increase in non-current liabilities: Mainly due to increase in deferred tax liabilities and long-term borrowings.
- (4) Increase in other equity: Mainly due to increase in available-for-sale financial assets at fair value and partially offset by FX fluctuation resulting in decrease in exchange differences resulting from translating the financial statement of foreign operations.
- (5) Decrease in non-controlling interests: Mainly due to acquisition of the remaining ownership of Richtek.

1.2. Parent Company

Unit: NT\$ thousands

Item	2015	2016	Change	% of Change
Current Assets	94,412,808	90,622,975	(3,789,833)	(4)
Funds and Investments	155,319,309	171,773,810	16,454,501	11
Property, Plant and Equipment	10,565,034	12,331,165	1,766,131	17
Intangible Assets	29,881,027	28,504,894	(1,376,133)	(5)
Other Assets	1,292,315	1,607,902	315,587	24
Total Assets	291,470,493	304,840,746	13,370,253	5
Current Liabilities	49,045,380	57,799,284	8,753,904	18
Non-current Liabilities	1,997,387	2,262,552	265,165	13
Total Liabilities	51,042,767	60,061,836	9,019,069	18
Common Stock	15,715,837	15,821,122	105,285	1
Capital Surplus	88,354,178	89,815,356	1,461,178	2
Retained Earnings	128,508,763	126,952,601	(1,556,162)	(1)
Other Equity	7,904,918	12,245,801	4,340,883	55
Treasury Shares	(55,970)	(55,970)	-	-
Total Equity	240,427,726	244,778,910	4,351,184	2
Explanation for changes that exceed 20% and reached NT\$10 million in the past two years:				
(1) Increase in other assets: Mainly due to increase in deferred tax assets.				
(2) Increase in other equity: Mainly due to increase in available-for-sale financial assets at fair value and partially offset by FX fluctuation resulting in decrease in exchange differences resulting from translating the financial statement of foreign operations.				

2. Operating Results

2.1. Consolidated Report

Unit: NT\$ thousands

Item	2015	2016	Change	% of Change
Net Sales	213,255,240	275,511,714	62,256,474	29
Operating Costs	121,075,654	177,321,882	56,246,228	46
Gross Profit	92,179,586	98,189,832	6,010,246	7
Operating Expenses	66,271,616	75,114,057	8,842,441	13
Operating Income	25,907,970	23,075,775	(2,832,195)	(11)
Non-Operating Income and Expenses	3,460,523	4,137,110	676,587	20
Net Income before Income Tax	29,368,493	27,212,885	(2,155,608)	(7)
Income Tax Expense	3,599,761	3,182,353	(417,408)	(12)
Net Income	25,768,732	24,030,532	(1,738,200)	(7)
Other Comprehensive Income, net of tax	1,594,830	5,691,418	4,096,588	257
Total Comprehensive Income	27,363,562	29,721,950	2,358,388	9
Net Income Attributable to Owners of the Parent	25,958,429	23,700,598	(2,257,831)	(9)
Total Comprehensive Income Attributable to Owners of the Parent	27,527,096	29,463,494	1,936,398	7
Explanation for changes that exceed 20% and reached NT\$10 million in the past two years:				
<ol style="list-style-type: none"> (1) Increase in net sales: Mainly due to increase in market demand (2) Increase in operating costs: Mainly due to increase in operating costs associated with higher sales. (3) Increase in non-operating income and expenses: Mainly due to increase in foreign exchange gains and decrease in impairment loss of financial assets. (4) Increase in other comprehensive income, net of tax: Mainly due to increase in available-for-sale financial assets at fair value and partially offset by FX fluctuation resulting in increase in loss from exchange differences resulting from translating the financial statement of foreign operations . 				

2.2. Parent Company

Unit: NT\$ thousands

Item	2015	2016	Change	% of Change
Net Sales	99,245,700	121,097,722	21,852,022	22
Operating Costs	49,529,050	82,574,626	33,045,576	67
Gross Profit	49,716,650	38,523,096	(11,193,554)	(23)
Unrealized Gross Profit on Sales	0	(246,645)	(246,645)	100
Net Gross Profit	49,716,650	38,276,451	(11,440,199)	(23)
Operating Expenses	38,269,324	37,587,866	(681,458)	(2)
Operating Income	11,447,326	688,585	(10,758,741)	(94)
Non-Operating Income and Expenses	16,603,855	24,000,115	7,396,260	45
Net Income before Income Tax	28,051,181	24,688,700	(3,362,481)	(12)
Income Tax Expense	2,092,752	988,102	(1,104,650)	(53)
Net Income	25,958,429	23,700,598	(2,257,831)	(9)
Other Comprehensive Income, net of tax	1,568,667	5,762,896	4,194,229	267
Total Comprehensive Income	27,527,096	29,463,494	1,936,398	7
Explanation for changes that exceed 20% and reached NT\$10 million in the past two years:				
<ol style="list-style-type: none"> (1) Increase in net sales: Mainly due to increase in market demand. (2) Increase in operating costs: Mainly due to increase in operating costs associated with higher sales. (3) Increase in non-realized gross profit: Mainly due to the newly-added sales between the Company and subsidiaries. (4) Decrease in net gross profit and operating income: Mainly due to decrease in gross margin. (5) Increase in non-operating income and expenses: Mainly due to increase in subsidiaries, associates and joint ventures accounted for using the equity method. (6) Decrease in income tax expense: Mainly due to decrease in profits. (7) Increase in other comprehensive income: Mainly due to increase in share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using the equity method and partially offset by FX fluctuation resulting in increase in loss from exchange differences resulting from translating the financial statement of foreign operations. 				

3. Cash Flow Analysis

3.1. Consolidated Report

Unit: NT\$ thousands

Cash Balance Dec. 31, 2015	Net Cash Provided by Operating Activities in 2016	Net Cash Outflows from Investing and Financing Activities in 2016	Impact of Foreign Exchange Ratio	Cash Balance Dec. 31, 2016	Remedy for Cash Shortfall (Investment & Financing Plan)
\$153,279,687	\$32,547,717	\$(41,280,000)	\$(3,198,288)	\$141,349,116	--

3.1.1. Analysis of the Change in Cash Flow in 2016

Operating activities: Net cash inflow of NT\$32,547,717 thousand, mainly from operating profits.

Investing activities: Net cash outflow of NT\$16,470,031 thousand, mainly due to acquisition of investments accounted for using the equity method and ILI Technology Corp., purchase of fixed assets as well as acquisition and disposal of financial assets.

Financing activities: Net cash outflow of NT\$24,809,969 thousand, mainly due to distribution of cash dividend and acquisition of the remaining ownership of Richtek and partially offset by increase in short-term borrowings.

3.1.2. Remedial Actions for Cash Shortfall

The company has ample cash on-hand; remedial actions are not required.

3.1.3. Cash Flow Projection for Next Year

Not applicable.

3.2. Parent Company

Unit: NT\$ thousands

Cash Balance Dec. 31, 2015	Net Cash Provided by Operating Activities in 2016	Net Cash Outflows from Investing and Financing Activities in 2016	Cash Balance Dec. 31, 2016	Remedy for Cash Shortfall (Investment & Financing Plan)
\$74,921,175	\$14,034,396	\$(28,710,601)	\$60,244,970	--

3.2.1. Analysis of the Change in Cash Flow in 2016

Operating activities: Net cash inflow of NT\$14,034,396 thousand, mainly from operating profits

Investing activities: Net cash outflow of NT\$14,407,651 thousand, mainly due to the investments in subsidiaries and the purchase of property, plant and equipment.

Financing activities: Net cash outflow of NT\$14,302,950 thousand, mainly due to the distribution of cash dividend and partially offset by increase in short-term borrowings.

3.2.2. Remedial Actions for Cash Shortfall

The company has ample cash on-hand; remedial actions are not required.

3.2.3. Cash Flow Projection for Next Year

Not applicable.

4. Major Capital Expenditure

4.1. Major Capital Expenditure and Sources of Funding

Unit: NT\$ thousands

Plan	Actual or Planned Source of Capital	Estimated Capital Requirement (2016 and 2015)	Status of Actual or Projected Use of Capital	
			2016	2015
Fixed Assets - Land, Office Building and R&D Equipment	Cash flow generated from operation	\$16,039,620	\$6,671,275	\$9,368,345
Intangible Assets - Software, IPs and Patents	Cash flow generated from operation	\$2,392,162	\$366,912	\$2,025,250

4.2. Expected Future Benefits

(1) Fixed Assets - Land and office buildings:

Investment in proper and well-planned space is necessary for attracting talents who are responsible for developing new products. Product development is crucial to the Company's sustainability.

(2) Fixed Assets - R&D equipment:

Equipment and software can help the Company's R&D process become more efficient and thus shorten the product development cycle.

(3) Intangible assets: software, IPs and patents:

It is necessary for the company to strengthen its patent protection in order to navigate the current competitive landscape, which is often mired in complex patent disputes. The company has continued its efforts to obtain high-value patents to improve the company's patent portfolio. These patents can be applied in many of the company's advanced products.

5. Investment Policies

The company's investments are long-term strategic investments. Investment gain from equity method investment in 2016 was NT\$666,141 thousand. The company will keep its long-term strategic investment policy and evaluate investment plans prudently.

6. Risk Management

6.1. Risks Associated with Interest Rate Fluctuation, Foreign Exchange Volatility, and Inflation

Risks associated with foreign currency:

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 enter 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. 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 years ended December 31, 2016 and 2015 decreases or increases by NT\$4,860 thousand and NT\$6,581 thousand, while equity decrease/increase by NT\$32,213 thousand and NT\$6,313 thousand, respectively. When NTD appreciates or depreciates against CNY by 0.1%, the profit for the years ended December 31, 2016 and 2015 decreases or increases by NT\$4 thousand and NT\$88 thousand, while equity decrease/increase by NT\$7,194 thousand and NT\$3,641 thousand, respectively.

Risks associated with interest rate:

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's loans, receivables at variable interest rates and borrowings at variable and fixed interest rates. Moreover, the market value of the Company's investment 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 borrowings with variable interest rates. At the reporting date, an increase/decrease of 10 basis points of interest rate in a reporting period could cause the profit for the years ended December 31, 2016 and 2015 to increase/decrease by NT\$11,188 thousand and NT\$6,464 thousand, respectively.

Risks associated with inflation:

There was no major impact from inflation on the Company's 2016 operations.
The Finance Division is responsible for related risk management.

6.2. Risks Associated with High-Risk/High-Leveraged Investment; Lending, Endorsements, and Guarantees for Other Parties; and Financial Derivative Transactions

As part of the Company's conservative financial management, it does not engage in investments that are either high-risk or highly leveraged. The Company has in place a complete and thorough policy and internal control scheme governing lending, endorsements, guarantees for other parties, and financial derivative transactions. For the last fiscal year and year to date, the Company's lending, endorsements and guarantees for other parties are in accordance with relevant provisions. The Company engages in derivative transactions for hedging purposes. Any gains or losses from such transactions should roughly cancel out gains or losses in the underlying assets. For the last fiscal year and year to date, all the transactions are in accordance with relevant provisions.

The Finance Division is responsible for related risk management.

6.3. Future R&D Plans and Expected R&D Spending

R&D Project Name	Schedule
Next generation highly-integrated mobile communication chipsets	End of 2017
Next generation tablet chips	End of 2017
Next generation highly-integrated wireless communication chips	End of 2017
Next generation wearable device chips	End of 2017
Next generation low-power smart home connectivity chips	End of 2017
Next generation highly-integrated smart UltraHD TV chips	End of 2017
Next generation highly-integrated xPON chipsets	End of 2017
Next generation gigabyte digital subscriber line (VDSL 35B) chipsets	End of 2017
Various electronics' next generation power management and controller chipsets	End of 2017

The Company's R&D projects all follow industry trends and are implemented in a highly integrated and economical way. R&D expenses in 2016 and 2015 were NT\$55,685,244 thousand and NT\$49,528,765 thousand, accounting for 20% and 23% of revenue respectively. The Company will continue to invest in R&D to develop products for next generation communication standard. The budget for R&D projects abovementioned accounts for approximately 80% of 2017 total R&D budget which is estimated to be 24% of 2017 revenue.

6.4. Risk Associated with Changes in the Political and Regulatory Environment

The Taiwan Financial Supervisory Commission (FSC) required listed companies, starting from January 1, 2015, to prepare their consolidated financial statements in accordance with the 2013 version of following FSC endorsed standards and interpretations: "International Financial Reporting Standards," "International Accounting Standards," and "IFRS Interpretations" or Interpretations' announcement (collectively, "2013 Taiwan-IFRSs version"). From January 1, 2017, FSC requires listed companies to prepare their consolidated financial statements in accordance with the 2015 Taiwan-IFRSs version. The Company had already prepared its 2016 annual and interim consolidated financial statements in accordance with 2013 Taiwan-IFRSs version and the Guidelines Governing the Preparation of Financial Reports by Securities Issuers. Also, the Company has already prepared its 2017 interim consolidated financial statements in accordance with 2015 Taiwan-IFRSs version and the Guidelines Governing the Preparation of Financial Reports by Securities Issuers.

The Company's Finance Division is responsible for risks associated with changes in the political and regulatory environment

6.5. Impact of New Technology and Industry Changes

Technologies used in the electronics and semiconductor industries are constantly changing. New standards and applications continuously emerge in wireless communication and digital home segments. The Company will continue to invest in research and development, to improve operating efficiency, and to monitor the latest trend of the market, in order to secure and expand our market share.

The Company's Business Units are responsible for risks associated with new technology and industry changes.

6.6. Changes in Corporate Image and Impact on Company's Crisis Management

MediaTek has always maintained a humanistic philosophy toward management and provides a working environment that is both challenging and nurturing for its employees, who are able to grow and realize their full potential. MediaTek upholds the partnership with our suppliers and customers and implements corporate social responsibility. At the same time, MediaTek's has maintained its core values, such as integrity, conviction inspire by deep thinking, customer focus, constant renewal, innovation and teamwork. As of the Annual Report's publication date, there has been no event that adversely impact in MediaTek's corporate image and impact on company's crisis management.

The Company's Business Units are responsible for risks associated with the corporate image and impact on company's crisis management.

6.7. Risks Associated with Mergers and Acquisitions

In order to enhance operating performance and competitive edge, the Company's subsidiary, Hsu-Si Investment (Hsu-Si), conducted tender offer to acquire Airoha Technology (Airoha) in February and March, 2017. Both Hsu-Si and Airoha's Board meetings on March 28th, 2017 have approved share swap. After the relevant legal process is complete, Airoha will become Hsu-Si's fully-owned subsidiary. Please refer to "6. Financial Statements of Independent Auditors' Report – MediaTek & Subsidiaries" under "IX. Financial Information" for more details.

The Company's Business Units and the finance department are responsible for this risk item and execution.

6.8. Risks Associated with Facility Expansion

To meet company's future growth and increasing demand in talents, the Company expanded office buildings in Hsinchu Science Park, Neihu Technology Park, Mainland China, and relevant oversea areas. Expansion plans are under prudent assessments to ensure they fully meet operation needs such as space for working, labs and the rest. Results of the benefit assessment are within the Company's expectation.

The Human Resources Division is responsible for managing the risks associated with plant expansion.

6.9. Risks Associated with Purchase Concentration and Sales Concentration

MediaTek's production allocation is flexible and diversified, and is able to deal with any emergencies from any of its production lines. Therefore there is no risk associated with purchase concentration. Sales concentration does not pose any risks since MediaTek's products are sold to many clients throughout Japan, Korea, Europe, Southeast Asia, and Greater China.

Each business units are responsible for managing the risks associated with purchase concentration and sales concentration.

6.10. Risks Associated with Sales of Significant Numbers of Shares by MediaTek's Directors and Major Shareholders Who Own 10% or More of MediaTek's Total Outstanding Shares

In the latest fiscal year and as of the date of this Annual Report, there were no such risks for MediaTek.

6.11. Risks Associated with Change in Management

In the latest fiscal year and as of the date of this Annual Report, there were no such risks for MediaTek.

6.12. Risks Associated with Litigations

- (1) Optical Devices, LLC ("Optical Devices")** filed a complaint with the U.S. International Trade Commission (the "Commission") against MTK and subsidiary MediaTek USA Inc. on September 3, 2013 alleging infringement of United States Patent No. 8,416,651. Optical Devices alleged that MTK's optical disc drive chips infringe its patent and sought to prevent the accused products from being imported into the United States. The Commission issued an Initial Determination on July 17, 2014 finding that Optical Devices failed to meet the domestic industry requirement and terminating the investigation. On September 3, 2014, the Commission vacated the Initial Determination and remanded the case for further proceedings. On October 21, 2014, the Commission issued an Initial Determination to terminate the investigation on the ground that Optical Devices' lack of standing. On December 4, 2014, the Commission partially vacated the Initial Determination and remanded a part of the case including the investigation against MTK for further proceedings. On April 27, 2015, the Commission issued an Initial Determination terminate the investigation on the ground of Optical Devices' lack of standing. The Commission issued notice to affirm the Initial Determination with modified reasoning and terminated the investigation on June 9, 2015.

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

- (2) **Luciano F. Paone** filed a complaint in the United States District Court for the South District of New York against subsidiary MediaTek USA Inc. on February 6, 2015, alleging infringement of United States Patent No. 6,259,789. The court dismissed the claims with prejudice against MediaTek USA pursuant to the parties' joint motion on March 2, 2016.
- (3) **Innovatio IP Ventures, LLC ("Innovatio")** filed a complaint in the United States District Court for the Northern District of Illinois against subsidiary MediaTek USA Inc. on March 16, 2015, alleging infringement of United States Patent Nos. 6,697,415, 5,844,893, 5,740,366, 7,916,747, 6,665,536, 7,013,138, 7,107,052, 5,546,397, 7,710,907, 7,710,935, 6,714,559, 7,457,646 and 6,374,311. The court dismissed the claims with prejudice against MediaTek USA Inc. pursuant to the parties' joint stipulation on August 22, 2016.
- (4) **Mariner IC Inc. ("Mariner")** filed a complaint in the United States District Court for the Eastern District of Texas against MTK and subsidiary MediaTek USA Inc. on April 25, 2016, alleging infringement of United States Patent Nos. 5,560,666 and 5,846,874. The operations of MTK and subsidiary MediaTek USA Inc. would not be materially affected by this case.
- (5) **Semcon IP Inc. ("Semcon")** filed a complaint in the United States District Court for the Eastern District of Texas against MTK and subsidiary MediaTek USA Inc. on April 25, 2016, alleging infringement of United States Patent Nos. 7,100,061, 7,596,708, 8,566,627 and 8,806,247. The operations of MTK and subsidiary MediaTek USA Inc. would not be materially affected by this case.
- (6) **ZiiLabs Inc. Ltd. ("ZiiLabs")** filed a complaint with the Commission against MTK and subsidiary MediaTek USA Inc. on December 16, 2016 alleging infringement of United States Patent No. 6,677,952, 6,950,350, 7,518,616, 8,643,659. The operations of MTK and subsidiary MediaTek USA Inc. would not be materially affected by this case. Also on December 16, 2016, ZiiLabs filed a complaint in the United States District Court for the Eastern District of Texas against MTK and subsidiary MediaTek USA Inc., alleging infringement of the above referenced patents. The operations of MTK and subsidiary MediaTek USA Inc. would not be materially affected by this case.
- (7) **Advanced Micro Devices, Inc. and ATI Technologies ULC (collectively "AMD")** filed a complaint with the Commission against MTK and subsidiary MediaTek USA Inc. on January 24, 2017 alleging infringement of United States Patent No. 7,633,506, 7,796,133, 8,760,454, and 9,582,846. The operations of MTK and subsidiary MediaTek USA Inc. would not be materially affected by this case.
- (8) **Broadcom Corporation ("Broadcom")** filed a complaint with the Commission against MTK and subsidiaries MediaTek USA Inc. and MStar Semiconductor Inc. on March 7, 2017 alleging infringement of United States Patent No. 8,284,844, 7,590,059, 8,068,171, 7,310,104, and 7,342,967. The operations of MTK and subsidiaries MediaTek USA Inc. and MStar Semiconductor Inc. would not be materially affected by this case. Also on March 7, 2017, Broadcom filed a complaint in the United States District Court for the Central District of California against MTK and subsidiary MediaTek USA Inc., alleging infringement of United States Patent No. 8,284,844, 7,590,059, 7,310,104, and 7,342,967. The operations of MTK and subsidiary MediaTek USA Inc. would not be materially affected by this case.
- The Company will handle these cases carefully.

6.13. Other Material Risk:

None.

7. Other Material Events

7.1. Certificate Holding Status for Personnel Associated with Financial Transparency

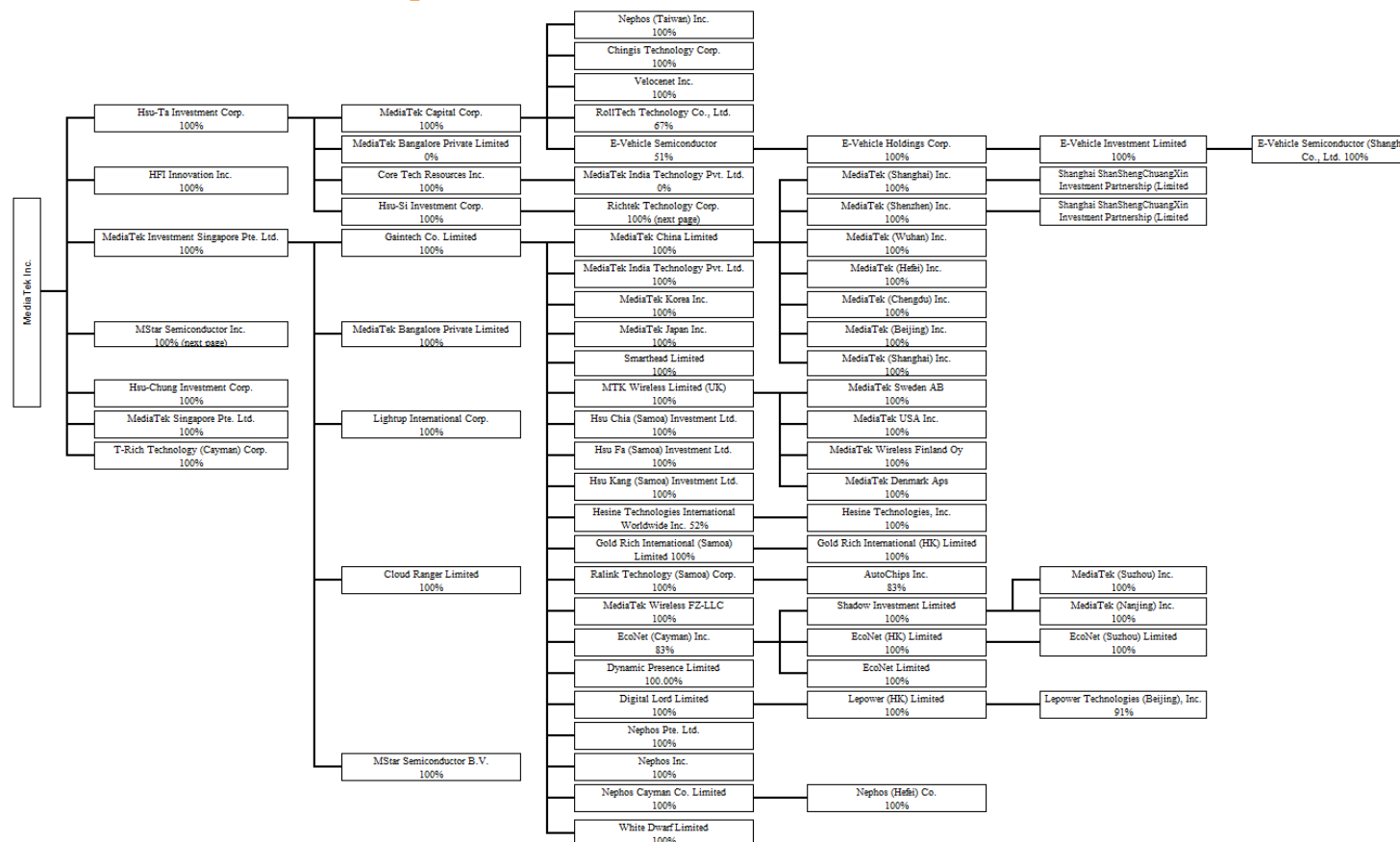
Certificate \ Headcount	CPA	US CPA	CA Singapore	CIA	CFA	CMA
Finance	14	1	1	6	1	1
Internal audit	1	-	-	3	-	-

VIII. Special Disclosure

1. Summary of Affiliated Companies

1.1. MediaTek Affiliated Companies Chart

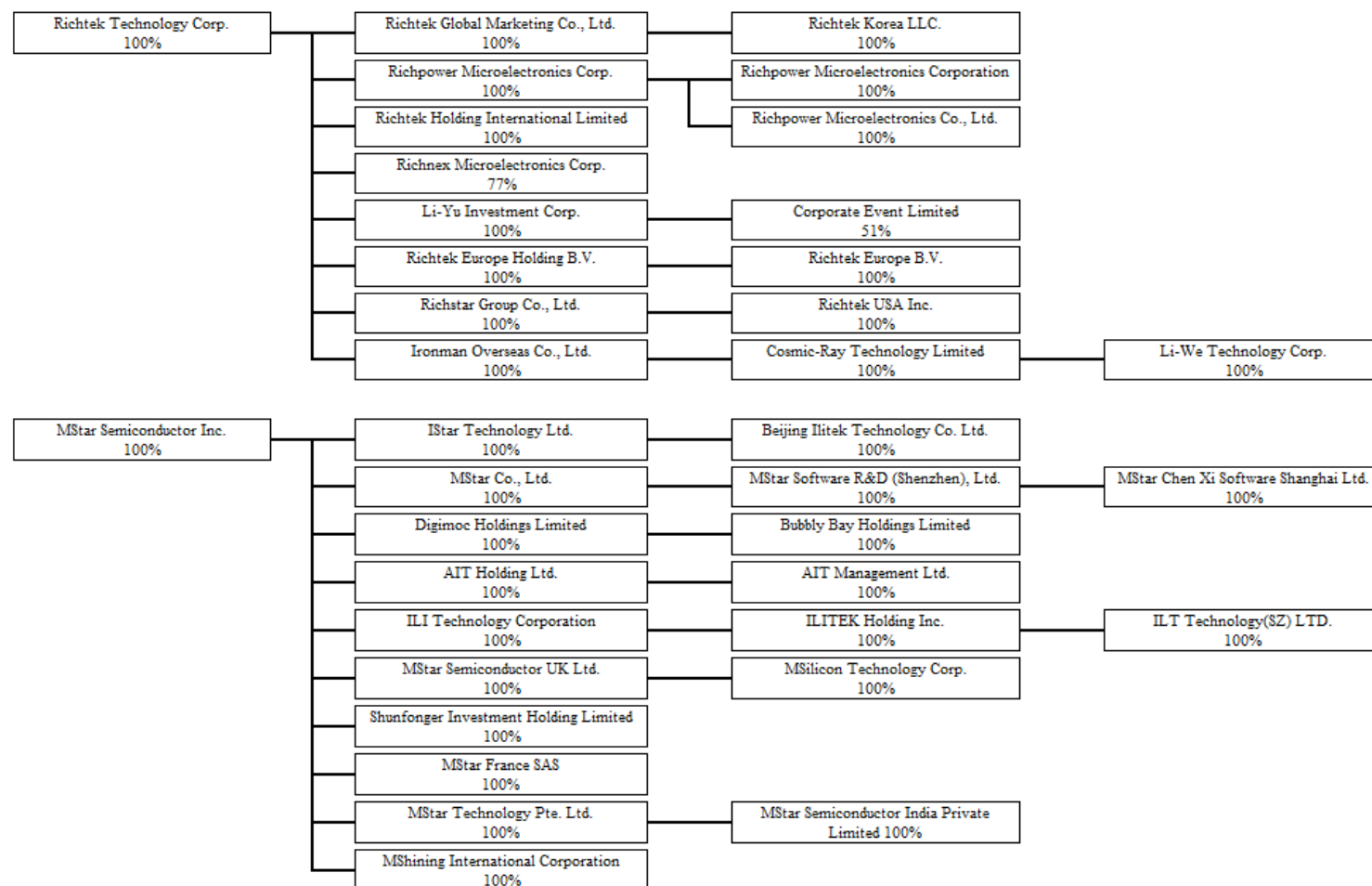
Dec. 31, 2016



(To be continued)

Note: All directly and indirectly majority owned subsidiaries of the Company, and the accounts of investees in which the Company's ownership percentage is less than 50% but the Company has a controlling interest.

(Continued)



Note: All directly and indirectly majority owned subsidiaries of the Company, and the accounts of investees in which the Company's ownership percentage is less than 50% but the Company has a controlling interest.

1.2. MediaTek Affiliated Companies

As of Dec. 31, 2016. Unit: NT\$ thousands / Foreign Currency thousands

Company Name	Date of Incorporation	Place of Registration	Capital Stock	Major Business
Hsu-Ta Investment Corp.	Sep 2002	Taiwan	NTD 33,589,819	General investing
MediaTek Singapore Pte. Ltd.	Jun 2004	Singapore	SGD 111,994	Research, manufacturing and sales
MediaTek Investment Singapore Pte. Ltd.	Jan 2008	Singapore	USD 2,193,635	General investing
T-Rich Technology (Cayman) Corp.	Oct 2009	Cayman Islands	USD 624	General investing
MStar Semiconductor Inc.	Jun 2002	Taiwan	NTD 1,452,532	Research, manufacturing and sales
Hsu-Chuang Investment Corp.	Jan 2015	Taiwan	NTD 300,000	General investing
HFI Innovation Inc.	Feb 2016	Taiwan	NTD 621,624	Intellectual property right management
Core Tech Resources Inc.	Sep 2002	B.V.I.	USD 57,200	General investing
MediaTek Capital Corp.	Sep 2000	Taiwan	NTD 2,157,450	General investing
Hsu-Si Investment Corp.	Sep 2015	Taiwan	NTD 27,500,000	General investing
RollTech Technology Co., Ltd.	Mar 2007	Taiwan	NTD 52,620	Software development
E-Vehicle Semiconductor Technology Co., Ltd.	May 2011	Taiwan	NTD 218,400	Research, manufacturing and sales
Chingis Technology Corp.	Oct 1998	Taiwan	NTD 1,169,370	Research
Velocenet Inc.	Nov 2015	Taiwan	NTD 154,286	Research
Nephos (Taiwan) Inc.	Dec 2015	Taiwan	NTD 136,794	Research
Richtek Technology Corp.	Sep 1998	Taiwan	NTD 1,484,828	Research, manufacturing and sales
Richstar Group Co., Ltd.	Feb 2004	B.V.I.	USD 10,765	General investing
Ironman Overseas Co., Ltd.	Jul 2000	B.V.I.	USD 8,930	General investing
Richtek Europe Holding B.V.	Sep 2007	Holland	EUR 2,000	General investing
Richtek Holding International Limited	Nov 2007	B.V.I.	USD 2,900	General investing
Richpower Microelectronics Corp.	Aug 2007	Cayman Islands	USD 2,898	Manufacturing and sales
Li-Yu Investment Corp.	Feb 2004	Taiwan	NTD 312,751	General investing
Richnex Microelectronics Corp.	Dec 2007	Taiwan	NTD 255,000	Research, manufacturing and sales
Richtek Global Marketing Co., Ltd.	Dec 2010	B.V.I.	USD 1,000	General investing
Richtek USA Inc.	Mar 2004	USA	USD 1,000	Sales and marketing service
Cosmic-Ray Technology Limited	Aug 2003	Samoa	USD 5,530	General investing
Richtek Europe B.V.	Sep 2007	Holland	EUR 1,500	Marketing service
Li-We Technology Corp.	Apr 2004	Mainland China	USD 2,500	Marketing service
Richpower Microelectronics Corp.	Dec 2008	Taiwan	NTD 100,000	Management service
Richpower Microelectronics Co., Ltd.	Apr 2004	Mainland China	USD 3,200	Marketing service
Corporate Event Limited	Sep 2009	B.V.I.	USD 102	Marketing service
Richtek Korea LLC.	Aug 2013	Korea	KRW 1,116,500	Sales and marketing service
MediaTek China Limited	Sep 2007	Hong Kong	HKD 2,445,564	General investing
MTK Wireless Limited (UK)	Aug 2007	UK	GBP 65,508	Research
MediaTek Japan Inc.	Jun 1997	Japan	JPY 100,000	Research
MediaTek India Technology Pvt. Ltd.	May 2004	India	INR 55,000	Research
MediaTek Korea Inc.	Feb 2007	Korea	KRW 2,000,000	Research

Company Name	Date of Incorporation	Place of Registration	Capital Stock	Major Business
Hesine Technologies International Worldwide Inc.	Oct 2010	B.V.I.	USD 274	General investing
Gold Rich International (Samoa) Limited	Mar 2011	Samoa	USD 4,290	General investing
Smarthead Limited	Jan 2011	Seychelles	USD 700	General investing
Ralink Technology (Samoa) Corp.	Mar 2008	Samoa	USD 7,150	General investing
EcoNet (Cayman) Inc.	Mar 2013	Cayman Islands	USD 17,399	General investing
Mediatek Wireless FZ-LLC	Nov 2013	Dubai	AED 50	Technology services
Digital Lord Limited	Aug 2015	Samoa	USD 3,100	General investing
Hsu Chia (Samoa) Investment Ltd.	Aug 2015	Samoa	CNY 1,000,000	General investing
Hsu Fa (Samoa) Investment Ltd.	Aug 2015	Samoa	CNY 1,000,000	General investing
Hsu Kang (Samoa) Investment Ltd.	Aug 2015	Samoa	CNY 1,000,000	General investing
Nepfos Pte. Ltd.	Nov 2015	Singapore	SGD 3,039	Research
Nepfos Inc.	Nov 2015	USA	USD 0.1	Research
Nepfos Cayman Co. Limited	Dec 2015	Cayman Islands	USD 30,050	General investing
MediaTek (Heifei) Inc.	Aug 2003	Mainland China	USD17,000	Research
MediaTek (Beijing) Inc.	Oct 2006	Mainland China	USD 100,000	Research
MediaTek (Shenzhen) Inc.	Oct 2003	Mainland China	USD 90,000	Research and technology services
MediaTek (Chengdu) Inc.	Sep 2010	Mainland China	USD49,800	Research
MediaTek (Wuhan) Inc.	Dec 2010	Mainland China	USD 4,800	Research
Xuxin Investment (Shanghai) Inc.	Jan 2011	Mainland China	USD 9,100	General investing
MediaTek (Shanghai) Inc.	Dec 2009	Mainland China	CNY 297,000	Research
MediaTek Sweden AB	Dec 2004	Sweden	SEK 1,008	Research
MediaTek USA Inc.	May 1997	USA	USD 0.1	Research
MediaTek Denmark Aps	Oct 2007	Denmark	DKK 20,000	Research
MediaTek Wireless Finland Oy	Oct 2014	Finland	EUR 3	Research
Hesine Technologies, Inc.	Sep 2008	Mainland China	CNY 10,000	Technology services
Gold Rich International (HK) Limited	Mar 2011	Hong Kong	USD4,190	General investing
Lepower (HK) Limited	Mar 2011	Hong Kong	USD 3,050	General investing
Lepower Technologies (Beijing,) Inc.	Dec 2011	Mainland China	USD 3,300	Research, manufacturing and sales
E-Vehicle Holdings Corp.	Aug 2011	Samoa	USD 2,400	General investing
E-Vehicle Investment Limited	Sep 2012	Hong Kong	USD 1,900	General investing
E-Vehicle Semiconductor (Shanghai) Co., Ltd.	May 2012	Mainland China	USD 1,900	Research, manufacturing and sales
Shadow Investment Limited	Apr 2002	Samoa	USD 15,000	General investing
EcoNet (HK) Limited	Mar 2013	Hong Kong	USD 67,535	Research and sales
EcoNet Limited	Oct 2016	B.V.I.	USD 1	General investing
EcoNet (Suzhou) Limited	Apr 2014	Mainland China	USD 10,000	Research, manufacturing and sales
MediaTek (Suzhou) Inc.	Dec 2003	Mainland China	USD 1,500	Research
MediaTek (Nanjing) Inc.	Jun 2008	Mainland China	USD 1,000	Research
AutoChips Inc.	Nov 2013	Mainland China	CNY 40,414	Research, manufacturing and sales
MSar Semiconductor B.V.	Feb 2008	Holland	EUR 1,197	General investing
Lightup International Corp.	Feb 2009	Taiwan	NTD 29,000	General investing

Company Name	Date of Incorporation	Place of Registration	Capital Stock	Major Business
MediaTek Bangalore Private Limited	May 2014	India	INR 20,000	Research
Gaintech Co. Limited	Jul 2000	Cayman Islands	USD 326,291	General investing
Cloud Ranger Limited	Feb 2015	Samoa	USD 12,639	General investing
Dynamic Presence Limited	Apr 2016	B.V.I.	USD 5	General investing
White Dwarf Limited	July 2007	B.V.I.	USD 5	General investing
MStar France SAS	Oct 2006	France	EUR 4,589	Software Development
Shunfonger Investment Holding Limited	Apr 2010	B.V.I.	USD 735	General investing
IStar Technology Ltd.	Aug 2013	Cayman Islands	USD 50	General investing and sales
MStar Co., Ltd.	May 2003	Brunei	USD 5,850	General investing
Digimoc Holdings Limited	Sep 2007	B.V.I.	USD 50	General investing
MStar Semiconductor UK Ltd.	Jun 2007	U.K.	GBP 915	Software and customer development
AIT Holding Ltd.	Jan 2008	Samoa	USD 1,979	General investing
AIT Management Ltd.	Jan 2008	Samoa	USD 1,877	General investing
MStar Software R&D (Shenzhen), Ltd.	Aug 2003	Mainland China	USD 30,000	Software and customer development
Bubbly Bay Holdings Limited	Jan 2006	B.V.I.	USD 50	General investing
MStar Chen Xi Software Shanghai Ltd.	Apr 2015	Mainland China	CNY 9,000	Software and customer development
MStar Technology Pte. Ltd.	Jan 2015	Singapore	USD20,000	Customer development
MShining International Corporation	Mar 2016	Taiwan	NTD 530,000	Selling of electronic parts
MSilicon Technology Corp.	Mar 2016	U.S.A.	USD1,000	Research and technology services
MStar Semiconductor India Private Limited	Jul 2015	India	INR 100	Research and technology services
ILI Technology Corporation	Jul 2015	Taiwan	NTD 3,651,000	Research, manufacturing and sales
Beijing Ilitek Technology Co. Ltd.	May 2016	Mainland China	USD3,000	Research and technology services
ILITEK Holding Inc.	May 2012	B.V.I.	USD13,050	General investing
ILI Technology(SZ) LTD.	Oct 2012	Mainland China	USD13,000	Technology services
Shanghai ShanShengChuangXin Investment Partnership (Limited Partnership)	Feb 2016	Mainland China	CNY 192,000	General investing
Nephos (Hefei) Co. Ltd.	Jul 2016	Mainland China	USD30,000	Research, manufacturing and sales

1.3. Common Shareholders of MediaTek and Its Subsidiaries or Its Affiliates with Actual or Deemed Control

None.

1.4. Business Scope of MediaTek and Its Affiliated Companies

Business scope of MediaTek and its affiliates include the investment, R&D, promotion, after-sale service for optical storage products, digital consumer products, wireless communication, digital TV, networking, analog, etc. MediaTek affiliates support the Company's core business by acquiring leading technology through investments.

1.5. List of Directors, Supervisors and Presidents of MediaTek's Affiliated Companies

December 31, 2016. Unit: shares / %

Company Name	Title	Name or Representative	Shares	% of Holding
Hsu-Ta Investment Corp.	Chairman	MediaTek Inc. Rep.: Ching-Jiang Hsieh	3,358,981,889	100%
	Director	MediaTek Inc. Rep.: David Ku		
	Director	MediaTek Inc. Rep.: Jane Chen		
	Supervisor	MediaTek Inc. Rep.: Amy Chung		
MediaTek Singapore Pte. Ltd.	Director	CC Ku	MediaTek Inc. 111,993,960	100%
	Director	Andrew Chang		
MediaTek Investment Singapore Pte. Ltd.	Director	David Ku	MediaTek Inc. 2,193,635,278	100%
	Director	CC Ku		
T-Rich Technology (Cayman) Corp.	Director	Jane Chen	MediaTek Inc. 1,248,583	100%
MStar Semiconductor Inc.	Chairman	MediaTek Inc. Rep.: Gon-Wei Liang	145,253,238	100%
	Director	MediaTek Inc. Rep.: Han-Fei Lin		
	Director	MediaTek Inc. Rep.: Chin-Men Kao		
	Director	MediaTek Inc. Rep.: Wen-Nan Tsan		
	Director	MediaTek Inc. Rep.: Chern-Lin Chen		
	Supervisor	MediaTek Inc. Rep.: Hua Yu		
Hsu-Chuang Investment Corp.	Chairman	MediaTek Inc. Rep.: Ching-Jiang Hsieh	30,000,000	100%
	Director	MediaTek Inc. Rep.: David Ku		
	Director	MediaTek Inc. Rep.: Jane Chen		
	Supervisor	MediaTek Inc. Rep.: Amy Chung		
HFI Innovation Inc.	Chairman	MediaTek Inc. Rep.: Ching-Jiang Hsieh	62,162,397	100%
	Director	MediaTek Inc. Rep.: David Ku		
	Director	MediaTek Inc. Rep.: Steven Liu		
	Supervisor	MediaTek Inc. Rep.: Jane Chen		
CoreTech Resources Inc.	Director	David Ku	Hsu-Ta Investment Ltd. 57,200,000	100%
MediaTek Capital Corp.	Chairman	Hsu-Ta Investment Corp. Rep.: Ching-Jiang Hsieh	215,745,023	100%
	Director	Hsu-Ta Investment Corp. Rep.: David Ku		
	Director	Hsu-Ta Investment Corp. Rep.: Jane Chen		
	Supervisor	Hsu-Ta Investment Corp. Rep.: Amy Chung		
Hsu-Si Investment Corp.	Chairman	Hsu-Ta Investment Corp. Rep.: Ching-Jiang Hsieh	2,750,000,000	100%
	Director	Hsu-Ta Investment Corp. Rep.: David Ku		

Company Name	Title	Name or Representative	Shares	% of Holding
	Director	Hsu-Ta Investment Corp. Rep.: Jane Chen		
	Supervisor	Hsu-Ta Investment Corp. Rep.: Amy Chung		
RollTech Technology Co. Ltd.	Chairman	MediaTek Capital Corp. Rep: Hui-Ling Liu	3,510,000	67%
	Director	MediaTek Capital Corp. Rep.: YuChuan Yang	3,510,000	67%
	Director	Trinity investment Corporation	701,000	13%
	Supervisor	Amy Chung	-	-
E-Vehicle Semiconductor Technology Co. Ltd.	Chairman	MediaTek Capital Corp. Rep: JC Hsu	11,200,000	51%
	Director	MediaTek Capital Corp. Rep: Jane Chen		
	Director	Chao-Ting Ho	2,236,000	10%
	Supervisor	Amy Chung	-	-
Chingis Technology Corp.	Chairman	MediaTek Capital Corp. Rep.: Chang-Chaio Han		
	Director	MediaTek Capital Corp. Rep.: David Ku	116,936,991	100%
	Director	MediaTek Capital Corp. Rep.: Jane Chen		
	Supervisor	MediaTek Capital Corp. Rep.: Amy Chung		
Velocenet Inc.	Chairman	MediaTek Capital Corp. Rep.: Jerry Yu		
	Director	MediaTek Capital Corp. Rep.: Ruey-Chen Hsieh	15,428,560	100%
	Director	MediaTek Capital Corp. Rep.: David Ku		
	Supervisor	MediaTek Capital Corp. Rep.: Amy Chung		
Nephos (Taiwan) Inc.	Chairman	MediaTek Capital Corp. Rep.: Jerry Yu		
	Director	MediaTek Capital Corp. Rep.: Ruey-Chen Hsieh	13,679,360	100%
	Director	MediaTek Capital Corp. Rep.: David Ku		
	Supervisor	MediaTek Capital Corp. Rep.: Amy Chung		
Richtek Technology Corp.	Chairman	Hsu-Si Investment Corp. Rep.: Luke Hsieh		
	Vice-Chairman	Hsu-Si Investment Corp. Rep.: Andrew Chang		
	Director	Hsu-Si Investment Corp. Rep.: Kou-Hung Loh	148,482,806	100%
	Director	Hsu-Si Investment Corp. Rep.: Steve Lai		
	Director	Hsu-Si Investment Corp. Rep.: Chris Yuan		
	Supervisor	Hsu-Si Investment Corp. Rep.: David Ku		
Richstar Group Co., Ltd.	Director	Chris Yuan	Richtek Technology Corp. 10,765,000	100%
Ironman Overseas Co., Ltd.	Director	Chris Yuan	Richtek Technology Corp. 8,930,000	100%
Richtek Europe Holding B.V.	Director	Chris Yuan	Richtek Technology Corp. 2,000,000	100%
	Director	Terry Chen		
Richtek Holding International Limited	Director	Chris Yuan	Richtek Technology Corp. 29,000	100%

Company Name	Title	Name or Representative	Shares	% of Holding
Richpower Microelectronics Corp.	Director	Steve Lai	Richtek Technology Corp. 12,600,000	100%
Li-Yu Investment Corp.	Chairman/ Director	Richtek Technology Corp. Rep.: Steve Lai	31,275,100	100%
	Director	Richtek Technology Corp. Rep.: Luke Hsieh		
	Director	Richtek Technology Corp. Rep.: Scott Wang		
	Supervisor	Richtek Technology Corp. Rep.: Chris Yuan		
Richnex Microelectronics Corp.	Chairman/ Director	Shen Tu	1,401,500	6%
	Director	Richtek Technology Corp. Rep.: Luke Hsieh	19,598,677	77%
	Director	Richtek Technology Corp. Rep.: Steve Lai		
	Supervisor	York Chang	-	-
Richtek Global Marketing Co., Ltd.	Director	Chris Yuan	Richtek Technology Corp. 2,000	100%
Richtek USA, Inc.	Director	James Liu	Richstar Group Co., Ltd. 1,000,000	100%
	Director	Don Yuh		
	Director	Nick Liu		
Cosmic-Ray Technology Limited	Director	Chris Yuan	Ironman Overseas Co., Ltd. 5,530,000	100%
Richtek Europe B.V.	Director	Chris Yuan	Richtek Europe Holding B.V. 1,500,000	100%
	Director	Terry Chen		
Li-We Technology Corp.	Director	Cosmic-Ray Technology Limited Chris Yuan	Not Applicable	100%
Richpower Microelectronics Corp.	Chairman/ Director	Richpower Microelectronics Corp. Rep.: Steve Lai	10,000,000	100%
	Director	Richpower Microelectronics Corp. Rep.: Chean-Lung Tsay		
	Director	Richpower Microelectronics Corp. Rep.: Chris Yuan		
	Supervisor	Richpower Microelectronics Corp. Rep.: York Chang		
Richpower Microelectronics Co., Ltd.	Director	Richpower Microelectronics Corp. Steve Lai	Not Applicable	100%
	Supervisor	Richpower Microelectronics Corp. York Chang		
Corporate Event Limited	Director	Hsing-Fen, Chung	50,000	49%
Richtek Korea LLC.	Director	Justin Park	Richtek Global Marketing Co., Ltd. 10,000	100%
MediaTek China Limited	Director	David Ku	Gaintech Co. Limited 2,445,564,020	100%
MTK Wireless Limited (UK)	Director	David Ku	Gaintech Co. Limited 65,508,146	100%
MediaTek Japan Inc.	Director	David Ku	Gaintech Co. Limited 7,100	100%
MediaTek India Technology Pvt. Ltd.	Director	Grant Kuo	Gaintech Co. Limited 5,499,999	100%
	Director	David Ku		
	Director	Anku Jain		
MediaTek Korea Inc.	Director	Jerry Yu	Gaintech Co. Limited 200,000	100%
	Director	John Lee		
	Director	David Ku		
	Supervisor	Jane Chen		

Company Name	Title	Name or Representative	Shares	% of Holding
Hesine Technologies International Worldwide Inc.	Director	David Ku	Gaintech Co. Limited 566,667	52%
	Director	Wen-Yong Shi	NQ Mobile Inc. 530,159	48%
Gold Rich International (Samoa) Limited	Director	Jane Chen	Gaintech Co. Limited 4,290,000	100%
Smarthead Limited	Director	Jane Chen	Gaintech Co. Limited 700,000	100%
Ralink Technology (Samoa) Corp.	Director	David Ku	Gaintech Co. Limited 7,150,000	100%
EcoNet (Cayman) Inc.	Director	David Ku	Gaintech Co. Limited 14,382,660	83%
	Director	Aaron Chang		
	Director	Bomin Wang		
	Director	Pang-Yen Yang	PVG GCN Ventures, L.P. 312,361	2%
MediaTek Wireless FZ-LLC	Director	CC Ku	Gaintech Co. Limited 50	100%
	Director	Jane Chen		
	Director	David Ku		
Digital Lord Limited	Director	Jane Chen	Gaintech Co. Limited 3,100,000	100%
Hsu Chia (Samoa) Investment Ltd.	Director	Jane Chen	Gaintech Co. Limited 1,000,000,000	100%
Hsu Fa (Samoa) Investment Ltd.	Director	Jane Chen	Gaintech Co. Limited 1,000,000,000	100%
Hsu Kang (Samoa) Investment Ltd.	Director	Jane Chen	Gaintech Co. Limited 1,000,000,000	100%
Nephos Pte. Ltd.	Director	CC Ku	Gaintech Co. Limited 3,039,240	100%
	Director	Jerry Yu		
Nephos Inc.	Director	Jerry Yu	Gaintech Co. Limited 10,000	100%
Nephos Cayman Co. Limited	Director	Jerry Yu	Gaintech Co. Limited 30,050,000	100%
	Director	David Ku		
	Director	Ruey-Chen Hsieh		
MediaTek (Heifei) Inc.	Executive director / Legal representative	MediaTek China Limited Hai Wang	Not applicable	100%
	Supervisor	MediaTek China Limited Jane Chen		
MediaTek (Beijing) Inc.	Executive director / Legal representative	MediaTek China Limited Hai Wang	Not applicable	100%
	Supervisor	MediaTek China Limited Jane Chen		
MediaTek (ShenZhen) Inc.	Executive director / Legal representative	MediaTek China Limited Hai Wang	Not applicable	100%
	Supervisor	MediaTek China Limited Jane Chen		
MediaTek (Chengdu) Inc.	Executive director / Legal representative	MediaTek China Limited Wang Hai	Not applicable	100%
	Supervisor	MediaTek China Limited Jane Chen		
MediaTek (Wuhan) Inc.	Executive director / Legal representative	MediaTek China Limited Hai Wang	Not applicable	100%
	Supervisor	MediaTek China Limited Jane Chen		
Xuxin Investment (Shanghai) Inc.	Executive director / Legal representative	MediaTek China Limited Hai Wang	Not applicable	100%
	Supervisor	MediaTek China Limited Jane Chen		

Company Name	Title	Name or Representative	Shares	% of Holding
MediaTek (Shanghai) Inc.	Executive director / Legal representative	MediaTek China Limited Hai Wang	Not applicable	100%
	Supervisor	MediaTek China Limited Jane Chen		
MediaTek Sweden AB	Director	David Ku	MTK Wireless Limited (UK) 1,008,371	100%
	Director	Johan Erik Lodenius		
MediaTek USA Inc.	Director	David Ku	MTK Wireless Limited (UK) 111,815	100%
	Director	Kevin Jou		
MediaTek Denmark Aps	Director	David Ku	MTK Wireless Limited (UK) 20,000,000	100%
MediaTek Wireless Finland Oy	Director	Jane Chen	MTK Wireless Limited (UK) 1,000	100%
	Director	Jeanette Padgett		
	Director	Gemma Noonan		
Hesine Technologies, Inc.	Legal representative	Hesine Technologies International Worldwide Inc. Yu Lin	Not applicable	100%
Gold Rich International (HK) Limited	Director	Jane Chen	Gold Rich International (Samoa) Limited 4,190,000	100%
	Director	C.C. Yeh		
Lepower (HK) Limited	Director	Jane Chen	Digital Lord Limited 3,050,000	100%
Lepower Technologies (Beijing) Inc.	Chairman/Director	Lepower (HK) Limited Aaron Chang	Not applicable	91%
	Director	Zhongguancun Development Group Jun-Yao Shen	Not applicable	9%
	Director	Lepower (HK) Limited Phillips Lu	Not applicable	91%
	Supervisor	Lepower (HK) Limited Jane Chen	Not applicable	
E-Vehicle Holdings Corp.	Director	Jane Chen	E-Vehicle Semiconductor Technology Co. Ltd. 2,400,000	100%
E-Vehicle Investment Limited	Director	Jane Chen	E-Vehicle Holdings Corp. 1,900,000	100%
E-Vehicle Semiconductor (Shanghai) Co., Ltd.	Chairman/Director	E-Vehicle Investment Limited Chao-Ting Ho	Not applicable	100%
	Supervisor	E-Vehicle Investment Limited Amy Chung		
Shadow Investment Limited	Director	Hsu-Feng Ho	EcoNet (Cayman) Inc. 15,000,000	100%
EcoNet(HK) Limited	Director	Hsu-Feng Ho	EcoNet (Cayman) Inc. 67,534,520	100%
EcoNet Limited	Director	Hsu-Feng Ho	EcoNet (Cayman) Inc. 1,000	100%
EcoNet (Suzhou) Limited	Director/ Legal representative	EcoNet (HK) Limited Hsu-Feng Ho	Not applicable	100%
	Supervisor	EcoNet (HK) Limited Jhe-Wei Lin		
MediaTek (Suzhou) Inc.	Director/ Legal representative	Shadow Investment Limited Jerry Yu	Not applicable	100%
	Director	Shadow Investment Limited David Ku		
	Director	Shadow Investment Limited Bomin Wang		
	Supervisor	Shadow Investment Limited Kirin Liu		
MediaTek (Nanjing) Inc.	Director/ Legal representative	Shadow Investment Limited Bomin Wang	Not applicable	100%
	Director	Shadow Investment Limited		

Company Name	Title	Name or Representative	Shares	% of Holding
		David Ku		
	Director	Shadow Investment Limited Victor Liu		
	Supervisor	Shadow Investment Limited Kirin Liu		
AutoChips (Hefei) Inc.	Director	Ralink Technology (Samoa) Corp. Ping-Hsing Lu		
	Director	Ralink Technology (Samoa) Corp. David Ku		83%
	Director	Ralink Technology (Samoa) Corp. Wen Hsin Wang	Not applicable	
	Supervisor	Ralink Technology (Samoa) Corp. Kirin Liu		
	Supervisor	Hefei Hi-Tech Venture Capital Co. Ltd. Ming Liu		10%
MSar Semiconductor B.V.	Director	Jeanette Padgett	MediaTek Investment Singapore Pte. Ltd.	100%
	Director	Tessa Susanne Manon van Dijk	11,972	
Lightup International Corp.	Chairman	MediaTek Investment Singapore Pte. Ltd. Rep.: Ching-Jiang Hsieh		
	Director	MediaTek Investment Singapore Pte. Ltd. Rep.: David Ku	29,000,000	100%
	Director	MediaTek Investment Singapore Pte. Ltd. Rep.: Jane Chen		
	Supervisor	MediaTek Investment Singapore Pte. Ltd. Rep.: Amy Chung		
MediaTek Bangalore Private Limited	Director	Grant Kuo	MediaTek Investment Singapore Pte. Ltd.	100%
	Director	David Ku	1,999,999	
	Director	Anku Jain		
Gaintech Co. Limited	Director	David Ku	MediaTek Investment Singapore Pte. Ltd.	100%
			326,291,153	
Cloud Ranger Limited	Director	Jane Chen	MediaTek Investment Singapore Pte. Ltd.	100%
			12,639,000	
Dynamic Presence Limited	Director	Jane Chen	Gaintech Co. Limited	100%
			5,000	
White Dwarf Limited	Director	David Ku	Gaintech Co. Limited	100%
			5,000	
MStar France SAS	Director	Gon-Wei Liang	MStar Semiconductor Inc.	100%
			458,900	
Shunfonger Investment Holding Limited	Director	Gon-Wei Liang	MStar Semiconductor Inc.	100%
			735,300	
IStar Technology Ltd.	Director	Gon-Wei Liang	MStar Semiconductor Inc.	100%
			50,000	
MStar Co., Ltd.	Director	Gon-Wei Liang	MStar Semiconductor Inc.	100%
			5,850,000	
Digimoc Holdings Limited	Director	Gon-Wei Liang	MStar Semiconductor Inc.	100%
			50,000	
MStar Semiconductor UK Ltd.	Director	Gon-Wei Liang	MStar Semiconductor Inc.	100%
			915,000	
AIT Holding Ltd.	Director	Gon-Wei Liang	MStar Semiconductor Inc.	100%
			1,979,283	
AIT Management Ltd.	Director	Gon-Wei Liang	AIT Holding Ltd.	100%
			1,877,283	
MStar Software R&D (Shenzhen), Ltd.	Chairman/ Legal	MStar Co., Ltd.	Not Applicable	100%

Company Name	Title	Name or Representative	Shares	% of Holding
	representative	Chin-Men Kao		
	Director	MStar Co., Ltd. Miao-Tzu Tu		
	Director	MStar Co., Ltd. Li-Chiu Mao		
Bubbly Bay Holdings Limited	Director	Gon-Wei Liang	Digimoc Holdings Limited 50,000	100%
MStar Chen Xi Software Shanghai Ltd.	Director	MStar Software R&D (Shenzhen), Ltd. Yong-Yu Lin	Not Applicable	100%
MStar Technology Pte. Ltd.	Director	Gon-Wei Liang	MStar Semiconductor Inc. 20,000,000	100%
MShining International Corporation	Director/ Chairman	MStar Semiconductor Inc. Rep.: Sheng-Yuen Lin		
	Director	MStar Semiconductor Inc. Rep.: Hui-Ting Tsai	53,000,000	100%
	Director	MStar Semiconductor Inc. Rep.: Cheng-Chin Chen		
	Supervisor	MStar Semiconductor Inc. Rep.: Jen-I Liu		
MSilicon Technology Corp.	Director	Mei-Hui Lin	MStar Semiconductor UK Ltd. 1,000,000	100%
MStar Semiconductor India Private Limited	Director	Mei-Hui Lin		
	Director	Hui-Ting Tsai	MStar Technology Pte. Ltd. 1,000	100%
	Director	SUSHIL KUMAR AGARWAL		
ILI Technology Corporation	Director/ Chairman	MStar Semiconductor Inc. Rep.: Luen-Wu Wei		
	Director	MStar Semiconductor Inc. Rep.: Gon-Wei Liang	365,100,000	100%
	Director	MStar Semiconductor Inc. Rep.: Ming-Zhong Chang		
	Supervisor	MStar Semiconductor Inc. Rep.: Hui-Ting Tsai		
Beijing Ilitek Technology Co. Ltd.	Executive director / Legal representative	IStar Technology Ltd. Luen-Wu Wei	Not applicable	100%
	Supervisor	IStar Technology Ltd. Sheng-Hsin Chen		
ILITEK Holding Inc.	Director	Luen-Wu Wei	ILI Technology Corporation 13,050	100%
ILI Technology(SZ) LTD.	Executive director / Legal representative	ILITEK Holding Inc. Po-Tau Chen	Not applicable	100%
	Supervisor	ILITEK Holding Inc. Shen-Shin Chen		
Shanghai ShanShengChuangXin Investment Partnership (Limited Partnership)	Legal representative	MediaTek (Shanghai) Inc. Hai Wang	Not applicable	4%
Nephos (Hefei) Co. Ltd.	Director	Nephos Cayman Co. Limited Jerry Yu	Not applicable	100%
	Supervisor	Nephos Cayman Co. Limited Amy Chung		

1.6. Operation Highlights of MediaTek Affiliated Companies

Dec. 31, 2016. Unit: NT\$ thousands

Company Name	Capital	Assets	Liabilities	Net Worth	Net Sales	Income (loss) from Operation	Net Income	EPS (NT\$)
Hsu-Ta Investment Corp.	33,589,819	30,091,550	1,219,901	28,871,649	761,230	761,061	761,061	0.23
MediaTek Singapore Pte. Ltd.	2,517,201	30,829,413	12,878,882	17,950,531	82,074,865	9,490,119	9,788,485	87.40
MediaTek Investment Singapore Pte. Ltd.	70,808,353	75,586,277	17,543	75,568,734	3,621,417	(13,943)	3,287,014	1.50
T-Rich Technology (Cayman) Corp.	20,152	42,821	-	42,821	-	(152)	(152)	(0.12)
MStar Semiconductor Inc.	1,452,532	32,752,447	15,302,724	17,449,723	50,369,478	12,640,392	9,781,225	67.34
Hsu-Chuang Investment Corp.	300,000	293,083	20	293,063	1,608	(3,426)	(3,405)	(0.11)
HFI Innovation Inc.	621,624	550,432	-	550,432	-	(72,429)	(71,192)	(1.15)
Core Tech Resources Inc.	1,846,359	3,452,105	80,746	3,371,359	68,906	68,846	71,420	1.25
MediaTek Capital Corp.	2,157,450	6,374,032	1,348,646	5,025,386	(154,766)	(154,970)	(154,970)	(0.72)
Hsu-Si Investment Corp.	27,500,000	19,982,179	34	19,982,145	826,733	826,401	826,401	0.30
RollTech Technology Co., Ltd.	52,620	7,842	853	6,989	5,028	(22,120)	(23,413)	(6.67)
E-Vehicle Semiconductor Technology Co., Ltd.	218,400	71,820	7,716	64,104	6,229	(28,342)	(37,193)	(1.70)
Chingis Technology Corp.	1,169,370	1,210,392	322,187	888,205	476,241	(84,967)	(88,055)	(0.75)
Velocenet Inc.	154,286	60,254	17,295	42,959	12,729	(111,867)	(111,327)	(7.22)
Nephos (Taiwan) Inc.	136,794	111,907	38,715	73,192	45,936	(63,648)	(63,602)	(4.65)
Richtek Technology Corp.	1,484,828	11,037,238	3,365,607	7,671,631	12,118,264	1,581,300	1,515,309	10.20
Richstar Group Co., Ltd.	347,483	149,333	16,812	132,521	-	9,400	13,568	1.26
Ironman Overseas Co., Ltd.	288,251	111,307	-	111,307	-	(970)	(3,031)	(0.34)
Richtek Europe Holding B.V.	67,896	40,858	73	40,785	-	(79)	4,263	2.13
Richtek Holding International Limited	93,609	48,176	9,199	38,977	32,322	(8,534)	(9,460)	(326.21)
Richpower Microelectronics Corp.	93,545	508,204	156,676	351,528	1,111,490	57,238	62,951	5.00
Li-Yu Investment Corp.	312,751	403,762	10,798	392,964	12,494	7,543	7,543	0.24
Richnex Microelectronics Corp.	255,000	17,899	43,536	(25,637)	23,076	(14,098)	(14,824)	(0.58)
Richtek Global Marketing Co., Ltd.	32,279	32,280	15,250	17,030	139,537	(806)	(300)	(150.12)
Richtek USA Inc.	32,279	146,366	22,919	123,447	124,272	4,055	4,170	4.17
Cosmic-Ray Technology Limited	178,503	76,453	-	76,453	-	-	(2,156)	(0.39)
RichTek Europe B.V.	50,922	25,997	2,333	23,664	20,472	4,276	4,305	2.87
Li-We Technology Corp.	80,698	74,389	33,404	40,985	-	(101,434)	(2,185)	Not applicable
Richpower Microelectronics Corp.	100,000	63,952	893	63,059	-	(3,057)	4,450	0.45
Richpower Microelectronics Co., Ltd.	103,293	37,795	26,234	11,561	-	(74,545)	41	Not applicable
Corporate Event Limited	3,292	8,239	4,938	3,301	-	(172,695)	-	-
Richtek Korea LLC.	32,279	38,525	32,404	6,121	140,667	2,067	511	51.07
MediaTek China Limited	10,170,467	13,933,044	1,255,095	12,677,949	600,253	600,127	600,127	0.25
MTK Wireless Limited (UK)	2,529,675	3,795,309	133,316	3,661,993	726,372	47,520	224,689	3.43
MediaTek Japan Inc.	27,598	90,427	26,258	64,169	136,821	8,255	10,657	1500.99
MediaTek India Technology Pvt. Ltd.	26,137	531,416	182,588	348,828	472,349	80,399	47,648	8.66
Hesine Technologies International Worldwide Inc.	8,851	264,173	66,592	197,581	3,614	(9,253)	(23,951)	(21.84)

Company Name	Capital	Assets	Liabilities	Net Worth	Net Sales	Income (loss) from Operation	Net Income	EPS (NT\$)
MediaTek Korea Inc.	53,460	287,025	145,451	141,574	321,352	21,023	10,186	50.93
Gold Rich International (Samoa) Limited	138,477	12,596,580	-	12,596,580	1,141,146	1,141,123	946,754	220.69
Smarthead Limited	22,595	79,015	-	79,015	(3,006)	(3,031)	(3,031)	(4.33)
Ralink Technology (Samoa) Corp.	230,795	2,382,001	-	2,382,001	790,437	790,205	790,205	110.52
EcoNet (Cayman) Inc.	561,635	2,882,333	-	2,882,333	444,786	443,736	443,736	25.50
Mediatek Wireless FZ-LLC	439	6,030	1,894	4,136	28,810	1,885	1,866	37,320.00
Digital Lord Limited	100,065	33,918	-	33,918	(887)	(910)	(910)	(0.29)
Hsu Chia (Samoa) Investment Ltd.	4,646,670	4,809,085	-	4,809,085	163,882	151,612	151,625	0.15
Hsu Fa (Samoa) Investment Ltd.	4,646,670	4,769,105	-	4,769,105	100,092	96,605	97,926	0.10
Hsu Kang (Samoa) Investment Ltd.	4,646,670	4,815,277	-	4,815,277	159,679	143,535	143,443	0.14
Nephos Pte. Ltd.	67,807	53,673	15,099	38,574	27,788	(30,961)	(31,273)	(10.29)
Nephos Inc.	3	93,001	74,000	19,001	46,057	(116,694)	(116,725)	(11,672.50)
Nephos (Cayman) Co. Limited	969,984	366,745	-	366,745	(567,828)	(568,521)	(568,521)	(18.92)
MediaTek (Heifei) Inc.	520,979	2,139,146	1,090,050	1,049,096	1,294,608	96,105	88,752	Not applicable
MediaTek (Beijing) Inc.	3,180,779	4,625,632	185,193	4,440,439	1,744,594	119,938	237,350	Not applicable
MediaTek (Shenzhen) Inc.	2,608,074	6,630,382	3,553,842	3,076,540	1,925,248	89,682	37,376	Not applicable
MediaTek (Chengdu) Inc.	1,479,336	2,042,211	221,089	1,821,122	919,041	58,456	99,238	Not applicable
MediaTek (Wuhan) Inc.	147,769	351,144	48,843	302,301	318,206	23,571	37,431	Not applicable
Xuxin Investment (Shanghai) Inc.	282,889	238,156	1,207	236,949	1,731	(11,601)	(11,361)	Not applicable
MediaTek (Shanghai) Inc.	1,380,061	4,330,956	2,960,873	1,370,083	1,194,743	88,663	52,913	Not applicable
MediaTek Sweden AB	3,574	160,424	76,393	84,031	240,678	15,745	8,886	8.81
MediaTek USA Inc.	4	3,812,805	1,304,666	2,508,139	4,059,518	265,576	202,627	1,812.16
MediaTek Denmark Aps	91,336	77,886	2,737	75,149	-	578	722	0.04
MediaTek Wireless Finland Oy	85	255,349	142,693	112,656	652,225	42,669	42,809	42,809.00
Hesine Technologies, Inc.	46,467	9,652	143	9,509	210,928	197,205	197,116	Not applicable
Gold Rich International (HK) Limited	135,249	13,941,217	1,347,509	12,593,708	551,385	551,240	946,776	225.96
Lepower (HK) Limited	98,451	32,399	31	32,368	(801)	(888)	(888)	(0.29)
Lepower Technologies (Beijing,) Inc.	96,185	40,509	5,947	34,562	44,942	(882)	(882)	Not applicable
E-Vehicle Holdings Corp.	77,470	9,832	-	9,832	-	(3,232)	(8,323)	(3.47)
E-Vehicle Investment Limited	61,330	9,832	-	9,832	-	-	(8,338)	(4.39)
E-Vehicle Semiconductor (Shanghai) Co., Ltd.	61,330	12,423	3,550	8,873	6,876	(4,124)	(5,105)	Not applicable
Shadow Investment Limited	484,185	76,765	-	76,765	226	177	177	0.01
EcoNet (HK) Limited	2,179,947	2,755,780	15,072	2,740,708	484,694	444,386	444,386	6.58
EcoNet Limited	32	32	-	32	-	-	-	-
EcoNet (Suzhou) Limited	285,870	1,098,398	276,155	822,243	2,368,762	430,521	496,407	Not applicable
MediaTek (Suzhou) Inc.	56,742	32,706	-	32,746	-	(195)	168	Not applicable
MediaTek (Nanjing) Inc.	31,727	32,095	-	32,095	-	(129)	(44)	Not applicable
AutoChips Inc.	187,792	3,636,273	759,436	2,876,837	2,562,489	935,558	949,462	Not applicable
MSar Semiconductor B.V.	54,257	17,752	-	17,752	194	(1,095)	(1,095)	(91.46)

Company Name	Capital	Assets	Liabilities	Net Worth	Net Sales	Income (loss) from Operation	Net Income	EPS (NT\$)
Lightup International Corp.	29,000	28,907	-	28,907	163	(92)	(92)	(0.03)
MediaTek Bangalore Private Limited	9,504	457,108	274,079	183,029	691,474	117,087	92,179	46.09
Gaintech Co. Limited	10,532,352	95,815,585	21,435,689	74,379,896	3,335,891	3,323,146	3,323,146	10.18
Cloud Ranger Limited	407,974	407,952	-	407,952	60	1	1	0.00
Dynamic Presence Limited	161	160	-	160	-	-	-	-
White Dwarf Limited	161	5,446	-	5,446	25	(57)	12	2.40
MStar France SAS	155,787	783,015	24,056	758,959	64,274	(4,849)	5,249	11.44
Shunfonger Investment Holding Limited	23,735	172	-	172	-	-	-	-
IStar Technology Ltd.	1,614	168,789	-	168,789	-	(157)	2,569	51.38
MStar Co., Ltd.	188,832	570,604	593,712	(23,108)	99,608	(570,497)	(475,066)	(81.21)
Digimoc Holdings Limited	1,614	35,315	2,364	32,951	17,427	(1,170,839)	(1,153,440)	(23,068.81)
MStar Semiconductor UK Ltd.	36,447	103,371	2,831	100,541	57,691	(516)	(15,344)	(16.77)
AIT Holding Ltd.	63,889	634	-	634	(41)	-	(83)	(0.04)
AIT Management Ltd.	60,597	533	-	533	-	-	(41)	(0.02)
MStar Software R&D (Shenzhen), Ltd.	968,370	445,068	182,493	262,574	787,729	15,530	95,006	Not applicable
Bubbly Bay Holdings Limited	1,614	3,032	-	3,032	-	(26)	(26)	(0.51)
MStar Chen Xi Software Shanghai Ltd.	41,820	60,972	(38,051)	99,022	213,831	58,845	61,226	Not applicable
MStar Technology Pte. Ltd.	645,580	1,063,185	171,195	891,990	1,220,620	244,516	246,148	12.31
MShining International Corporation	530,000	861,983	386,117	475,865	424,396	(65,565)	(54,135)	(1.02)
MSilicon Technology Corp.	32,279	17,367	-	17,367	-	(14,947)	(14,947)	(14.89)
MStar Semiconductor India Private Limited	48	5,006	3,321	1,686	14,389	2,400	1,663	1,658.47
ILI Technology Corporation	3,651,000	5,223,953	1,717,016	3,506,937	4,714,417	175,111	147,411	0.62
Beijing Ilitek Technology Co. Ltd.	96,837	282,664	185,639	97,025	192,262	1,916	2,652	Not applicable
ILITEK Holding Inc.	399,927	396,005	-	396,005	-	(60)	3,932	0.30
ILI Technology(SZ) LTD.	419,627	407,388	12,834	394,554	139,771	7,562	4,008	Not applicable
Shanghai ShanShengChuangXin Investment Partnership (Limited Partnership)	892,161	892,404	12	892,392	-	(13)	243	Not applicable
Nephos (Hefei) Co. Ltd.	930,998	909,477	543,653	365,824	8,433	(634,766)	(567,828)	Not applicable

Note: The amount of capital, asset, liabilities and net worth in this table were calculated using the exchange rate at end of 2016. The net sales, income from operation, net income and EPS numbers were calculated using the average exchange rate in 2016.

2. Private Placement Securities

None.

3. Holding or Disposition of MediaTek Stocks by Subsidiaries

Unit: NT\$ thousands / shares / %

Subsidiary	Paid-in Capital	Source of Funding	MediaTek Ownership	Transaction Date	Number of shares acquired and its amount	Number of shares Disposed and its amount	Investment gain / loss	Balance (share & amount)	Balance of Pledged Shares	Balance of Guarantee Provided by MediaTek	Balance of Financing Provided by MediaTek
MediaTek Capital Corp.	2,157,450	None	100%	-	-	-	-	7,794,085 shares; NT\$55,970 thousand	-	-	-

4. Any Events that Had Significant Impacts on Shareholders' Rights or Security Prices as Stated in Item 2 Paragraph 2 of Article 36 of Securities and Exchange Law of Taiwan

None.

5. Other Necessary Supplement

None.

IX. Financial Information

1. Condensed Balance Sheets

1.1. 2012-2017Q1 Consolidated Condensed Balance Sheets – MediaTek & Subsidiaries

Unit: NTS thousands

Item		2012	2013	2014	2015	2016	2017Q1
Current assets		117,744,362	161,740,929	248,554,935	214,873,175	220,277,570	231,530,128
Funds and investments		64,965,683	68,039,686	15,000,614	22,813,731	36,970,720	40,898,815
Property, plant and equipment		10,732,494	11,312,107	23,294,555	34,390,077	36,857,740	35,754,240
Intangible assets		15,727,448	15,509,193	60,757,826	75,430,673	72,014,554	78,105,919
Other assets		1,236,531	2,034,947	3,510,741	3,742,000	4,591,188	4,615,626
Total assets		210,406,518	258,636,862	351,118,671	351,249,656	370,711,772	390,904,728
Current liabilities	Before distribution	32,979,368	61,384,592	101,619,838	101,266,471	119,328,266	129,640,234
	After distribution	33,654,058	84,949,915	136,194,535	118,553,892	(Note1)	(Note2)
Non-current liabilities		1,969,426	1,898,871	1,893,086	2,896,300	4,720,628	6,301,493
Total liabilities	Before distribution	34,948,794	63,283,463	103,512,924	104,162,771	124,048,894	135,941,727
	After distribution	35,623,484	86,848,786	138,087,621	121,450,192	(Note1)	(Note2)
Equity attributable to owners of the parent							
Share capital		13,493,804	13,497,140	15,714,922	15,715,837	15,821,122	15,821,119
Capital surplus		79,672,498	68,474,910	88,047,914	88,354,178	89,815,356	90,931,025
Retained earnings	Before distribution	87,496,557	114,294,875	136,855,169	128,508,763	126,952,601	133,654,879
	After distribution	86,821,867	90,729,552	102,280,472	111,221,342	(Note1)	(Note2)
Other equity		(5,183,374)	(895,749)	6,606,113	7,904,918	12,245,801	11,804,424
Treasury shares		(55,970)	(55,970)	(55,970)	(55,970)	(55,970)	(55,970)
Total equity attributable to owners of the parent	Before distribution	175,423,515	195,315,206	247,168,148	240,427,726	244,778,910	252,155,477
	After distribution	174,748,825	171,749,883	212,593,451	223,140,305	(Note1)	(Note2)
Non-controlling interests		34,209	38,193	437,599	6,659,159	1,883,968	2,807,524
Total equity	Before distribution	175,457,724	195,353,399	247,605,747	247,086,885	246,662,878	254,963,001
	After distribution	174,783,034	171,788,076	213,031,050	229,799,464	(Note1)	(Note2)

Note1: Pending on approval of shareholders at Annual General Shareholders' Meeting.

Note2: Not applicable.

1.2. 2012-2016 Condensed Balance Sheets – Parent Company

Unit: NTS thousands

Item	2012	2013	2014	2015	2016	
Current assets	48,948,759	70,707,646	149,267,002	94,412,808	90,622,975	
Funds and investments	135,159,040	144,972,800	129,656,160	155,319,309	171,773,810	
Property, plant and equipment	6,282,152	6,331,668	9,177,068	10,565,034	12,331,165	
Intangible assets	7,039,987	7,242,842	28,740,924	29,881,027	28,504,894	
Other assets	579,683	1,216,985	2,429,791	1,292,315	1,607,902	
Total assets	198,009,621	230,471,941	319,270,945	291,470,493	304,840,746	
Current liabilities	Before distribution	20,823,735	33,630,662	70,428,396	49,045,380	57,799,284
	After distribution	21,498,425	57,195,985	105,003,093	66,332,801	(Note)
Non-current liabilities	1,762,371	1,526,073	1,674,401	1,997,387	2,262,552	
Total liabilities	Before distribution	22,586,106	35,156,735	72,102,797	51,042,767	60,061,836
	After distribution	23,260,796	58,722,058	106,677,494	68,330,188	(Note)
Share capital	13,493,804	13,497,140	15,714,922	15,715,837	15,821,122	
Capital surplus	79,672,498	68,474,910	88,047,914	88,354,178	89,815,356	
Retained earnings	Before distribution	87,496,557	114,294,875	136,855,169	128,508,763	126,952,601
	After distribution	86,821,867	90,729,552	102,280,472	111,221,342	(Note)
Other equity	(5,183,374)	(895,749)	6,606,113	7,904,918	12,245,801	
Treasury shares	(55,970)	(55,970)	(55,970)	(55,970)	(55,970)	
Total equity	Before distribution	175,423,515	195,315,206	247,168,148	240,427,726	244,778,910
	After distribution	174,748,825	171,749,883	212,593,451	223,140,305	(Note)

Note: Pending on approval of shareholders at Annual General Shareholders' Meeting.

2. Condensed Statements of Comprehensive Income

2.1. 2012-2017Q1 Consolidated Condensed Statements of Comprehensive Income – MediaTek & Subsidiaries

Unit: NTS thousands

Item	2012	2013	2014	2015	2016	2017Q1
Net sales	99,263,160	136,055,954	213,062,916	213,255,240	275,511,714	56,082,721
Gross profit	41,059,021	59,805,584	103,868,621	92,179,586	98,189,832	18,789,626
Operating income	12,402,775	25,243,720	47,241,310	25,907,970	23,075,775	1,211,978
Non-operating income and expenses	4,082,306	4,303,102	5,108,645	3,460,523	4,137,110	6,289,136
Net income before income tax	16,485,081	29,546,822	52,349,955	29,368,493	27,212,885	7,501,114
Net income	15,544,530	27,484,650	46,399,073	25,768,732	24,030,532	6,639,157
Other comprehensive Income, net of tax	(3,035,326)	4,253,825	7,268,758	1,594,830	5,691,418	(703,442)
Total comprehensive income	12,509,204	31,738,475	53,667,831	27,363,562	29,721,950	5,935,715
Net income (loss) for the periods attributable to:						
Owners of the parent	15,583,745	27,515,052	46,397,892	25,958,429	23,700,598	6,702,264
Non-controlling interests	(39,215)	(30,402)	1,181	(189,697)	329,934	(63,107)
Total comprehensive income for the periods attributable to:						
Owners of the parent	12,525,306	31,760,633	53,627,479	27,527,096	29,463,494	6,043,876
Non-controlling interests	(16,102)	(22,158)	40,352	(163,534)	258,456	(108,161)
Earnings per share (NT\$)	12.81	20.51	30.04	16.60	15.16	4.29
Earnings per share – adjusted (NT\$)	12.81	20.51	30.04	16.60	(Note1)	(Note2)

Note1: Pending on approval of shareholders at Annual General Shareholders' Meeting.

Note2: Not applicable.

2.2. 2012-2016 Condensed Statements of Comprehensive Income – Parent Company

Unit: NTS thousands

Item	2012	2013	2014	2015	2016
Net sales	63,474,029	96,230,064	136,265,018	99,245,700	121,097,722
Gross profit	22,700,240	41,335,679	68,274,360	49,716,650	38,523,096
Operating income	5,757,882	18,812,492	33,867,177	11,447,326	688,585
Non-operating income and expenses	10,565,227	10,395,013	16,233,126	16,603,855	24,000,115
Net income before income tax	16,323,109	29,207,505	50,100,303	28,051,181	24,688,700
Net income	15,583,745	27,515,052	46,397,892	25,958,429	23,700,598
Other Comprehensive Income, net of tax	(3,058,439)	4,245,581	7,229,587	1,568,667	5,762,896
Total comprehensive income	12,525,306	31,760,633	53,627,479	27,527,096	29,463,494
Earnings per share (NT\$)	12.81	20.51	30.04	16.60	15.16
Earnings per share – adjusted (NT\$)	12.81	20.51	30.04	16.60	(Note)

Note: Pending on approval of shareholders at Annual General Shareholders' Meeting.

3. Auditors' Opinions from 2012 to 2016

Year	Accounting Firm	Name of Auditors (CPA)	Audio Opinion
2012	Ernst & Young	Shou-Pin Kuo, Hsin-Ming Hsu	Unqualified Opinions
2013	Ernst & Young	Shou-Pin Kuo, Hsin-Ming Hsu	Unqualified Opinions
2014	Ernst & Young	Shou-Pin Kuo, Jin-Lai Wang	Unqualified Opinions
2015	Ernst & Young	Jia-Ling Tu, Jin-Lai Wang	Unqualified Opinions
2016	Ernst & Young	Jia-Ling Tu, Jin-Lai Wang	Unqualified Opinions

4. Five-Year Financial Analysis

4.1. 2012-2017Q1 Consolidated Financial Analysis – MediaTek & Subsidiaries

Item		2012	2013	2014	2015	2016	2017Q1	
Capital structure analysis	Debt ratio (%)	16.61	24.47	29.48	29.65	33.46	34.78	
	Long-term fund to property, plant and equipment ratio (%)	1,635.89	1,727.71	1,063.17	718.48	670.37	714.22	
Liquidity Analysis	Current ratio (%)	357.02	263.49	244.59	212.19	184.60	178.59	
	Quick ratio (%)	311.52	245.97	220.40	186.19	154.91	148.31	
	Times interest earned (Times)	151.61	202.25	110.34	54.87	49.69	47.93	
Operating performance analysis	Average collection turnover (Times)	11.88	11.58	12.88	10.37	10.89	8.43	
	Days sales outstanding	31	32	28	35	34	43	
	Average inventory turnover (Times)	4.05	5.36	5.07	3.87	4.67	3.18	
	Average payment turnover (Times)	6.44	7.63	8.55	7.87	8.70	5.33	
	Average inventory turnover days	90	68	72	94	78	115	
	Property, plant and equipment turnover (Times)	9.64	12.34	12.31	7.39	7.73	6.18	
	Total assets turnover (Times)	0.55	0.58	0.70	0.61	0.76	0.59	
Profitability analysis	Return on total assets (%)	8.73	11.77	15.35	7.47	6.79	7.11	
	Return on equity attributable to owners of the parent (%)	10.66	14.82	20.95	10.42	9.73	10.59	
	Pre-tax income to paid-in capital (%)	122.17	218.91	333.12	186.87	172.00	47.41	
	Net margin (%)	15.66	20.20	21.78	12.08	8.72	11.84	
	Earnings per share (NT\$)	Before adjustments	12.81	20.51	30.04	16.60	15.16	4.29
		After adjustments	12.81	20.51	30.04	16.60	N/A	N/A
Cash flow	Cash flow ratio (%)	34.58	64.47	43.62	23.08	27.28	(0.91)	
	Cash flow adequacy ratio (%)	125.00	141.34	105.66	94.44	98.80	96.90	
	Cash flow reinvestment ratio (%)	0.65	14.68	10.75	(6.21)	8.23	(0.62)	
Leverage	Operating leverage	5.72	4.13	3.60	6.25	9.21	36.15	
	Financial leverage	1.01	1.01	1.01	1.02	1.02	1.15	

Changes that exceed 20% in the past two years and explanation for those changes:

- (1) Average inventory turnover increased by 20%: Mainly due to increase in operating costs associated with sales.
- (2) Total assets turnover increased by 26%: Mainly due to increase in sales driven by sales growth.
- (3) Net margin decreased by 28%: Mainly due to decrease in gross margin.
- (4) Cash flow reinvestment ratio increased: Mainly due to increase in net cash provided by operating activities and decrease in cash dividend.
- (5) Operating leverage increased by 47%: Mainly due to increase in net sales.

4.2. 2012-2016 Financial Analysis – Parent Company

Item		2012	2013	2014	2015	2016	
Capital structure analysis	Debt ratio (%)	11.41	15.25	22.58	17.51	19.70	
	Long-term fund to property, plant and equipment ratio (%)	2,792.41	3,084.74	2,693.91	2,275.69	1,985.04	
Liquidity Analysis	Current ratio (%)	235.06	210.25	211.94	192.50	156.79	
	Quick ratio (%)	182.63	190.46	198.88	174.50	131.51	
	Times interest earned (Times)	9,414.56	1,393.09	294.80	96.42	77.05	
Operating performance analysis	Average collection turnover (Times)	15.98	13.20	14.15	11.95	14.12	
	Days sales outstanding	23	28	26	31	26	
	Average inventory turnover (Times)	3.89	5.31	5.94	3.72	5.10	
	Average payment turnover (Times)	6.05	7.89	9.43	7.46	10.29	
	Average inventory turnover days	94	69	61.47	98.07	71.52	
	Property, plant, and equipment turnover (Times)	9.93	15.26	17.57	10.05	10.58	
	Total assets turnover (Times)	0.38	0.45	0.50	0.33	0.41	
Profitability analysis	Return on total assets (%)	9.28	12.85	16.93	8.58	8.04	
	Return on equity attributable to shareholders of the parent (%)	10.69	14.84	20.97	10.65	9.77	
	Pre-tax income to paid-in capital (%)	120.97	216.40	318.81	178.49	156.05	
	Net margin (%)	24.55	28.59	34.05	26.16	19.57	
	Basic earnings per share (NT\$)	Before adjustments	12.81	20.51	30.04	16.60	15.16
		After adjustments	12.81	20.51	30.04	16.60	N/A
Cash flow	Cash flow ratio (%)	21.33	92.35	101.08	19.29	24.28	
	Cash flow adequacy ratio (%)	91.43	96.33	116.95	106.96	107.05	
	Cash flow reinvestment ratio (%)	(3.39)	9.81	21.41	(11.59)	(1.46)	
Leverage	Operating leverage	7.65	3.72	3.00	5.70	122.95	
	Financial leverage	1.00	1.00	1.01	1.03	1.89	
Changes that exceed 20% in the past two years and explanation for those changes:							
(1) Quick ratio decreased by 25%: Mainly due to increase in inventory and current liabilities.							
(2) Times interest earned decreased by 20%: Mainly due to decrease in pre-tax income.							
(3) Average inventory turnover increased by 37%, average payment turnover increased by 38% and average inventory turnover days decreased by 27%: Mainly due to increase in operating costs associated with sales.							
(4) Total assets turnover increased by 25%: Mainly due to increase in sales driven by sales growth.							
(5) Net margin decreased by 25%: Mainly due to decrease in gross margin.							
(6) Cash flow ratio increased by 26% and cash flow reinvestment ratio increased by 87%: Mainly due to increased in net cash provided by operating activities and decrease in cash dividend.							
(7) Operating leverage increased by 2055% and financial leverage increased by 84%: Mainly due to decrease in operating income.							

Glossary:**1. Capital Structure Analysis:**

- (1). Debt ratio = Total liabilities / Total assets
- (2). Long-term fund to property, plant and equipment ratio = (Shareholders' equity + non-current liabilities) / Net property, plant and equipment

2. Liquidity Analysis:

- (1). Current ratio = Current assets / Current liabilities
- (2). Quick ratio = (Current assets – inventories – prepaid expenses) / Current liabilities
- (3). Times interest earned = Earnings before interest and taxes / Interest expenses

3. Operating Performance Analysis:

- (1). Average collection turnover = Net sales / Average trade receivables
- (2). Days sales outstanding = 365 / Average collection turnover
- (3). Average inventory turnover = Operating costs / Average inventory
- (4). Average payment turnover = operating costs / Average trade payables
- (5). Average inventory turnover days = 365 / Average inventory turnover
- (6). Property, plant and equipment turnover = Net sales / Average property, plant and equipment
- (7). Total assets turnover = Net sales / total assets

4. Profitability Analysis:

- (1). Return on total assets = [Net income + Interest expenses x (1 – tax rate)] / Average total assets
- (2). Return on equity attributable to shareholders of the parent = Net income attributable to shareholders of the parent / Average equity attributable to shareholders of the parent
- (3). Net margin = Net income / Net sales
- (4). Earnings per share = (Net income attributable to shareholders of the parent – preferred stock dividend) / Weighted average number of shares outstanding

5. Cash Flow:

- (1). Cash flow ratio = Net cash provided by operating activities / Current Liabilities
- (2). Cash flow adequacy ratio = Five-year sum of cash from operations / Five-year sum of capital expenditures, inventory additions, and cash dividend
- (3). Cash flow reinvestment ratio = (Cash provided by operating activities – cash dividends) / (Gross property, plant and equipment + long-term investments + other noncurrent assets + working capital)

6. Leverage:

- (1). Operating leverage = (Net sales – variable cost) / Operating income
- (2). Financial leverage = Operating income / (Operating income – interest expenses)

5. Audit Committee's Review Report

MediaTek Inc. Audit Committee's Report

The Board of Directors has prepared the Company's 2016 business report, financial statements, and proposal for allocation of profits. The CPA firm of Ernst & Young was retained to audit MediaTek's financial statements and has issued an audit report relating to the financial statements. The business report, financial statements, and profit allocation proposal have been reviewed by the Audit Committee and no irregularities were found. We hereby report as above according to Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act. Please kindly approve.

To MediaTek Inc. 2017 Annual General Shareholders' Meeting

MediaTek Inc.

Chairman of the Audit Committee: Chung-Yu Wu

April 28, 2017

6. Financial Statements and Independent Auditors' Report – MediaTek & Subsidiaries (Page F1 – Page F116)

7. Financial Statements and Independent Auditors' Report – Parent Company (Page F117 – Page F200)

8. The Impact on the Company's Financial Status in Cases where the Company or its Affiliates have Financial Difficulties

None.

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

MEDIATEK INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

WITH

REPORT OF INDEPENDENT ACCOUNTANTS

FOR THE YEARS ENDED

DECEMBER 31, 2016 AND 2015

REPRESENTATION LETTER

The entities included in the consolidated financial statements as of December 31, 2016 and for the year then ended prepared under the International Financial Reporting Standards, No.10 are the same as the entities to be included in the combined financial statements of the Company, if any to be prepared, pursuant to the Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises (referred to as “Combined Financial Statements”). Also, the footnotes disclosed in the Consolidated Financial Statements have fully covered the required information in such Combined Financial Statements. Accordingly, the Company did not prepare any other set of Combined Financial Statements than the Consolidated Financial Statements.

Very truly yours,

MediaTek Inc.

Chairman: Ming-Kai Tsai

March 22, 2017

English Translation of a Report Originally Issued in Chinese

Independent Auditors' Report

To the Board of Directors and Shareholders
of MediaTek Inc.

Opinion

We have audited the accompanying consolidated balance sheets of MediaTek Inc. and its subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2016 and 2015, and notes to the consolidated financial statements, including the summary of significant accounting policies (together “the consolidated financial statements”).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of MediaTek Inc. and its subsidiaries as of December 31, 2016 and 2015, and their consolidated financial performance and cash flows for the years ended December 31, 2016 and 2015, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of 2016 consolidated financial statements. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition

MediaTek Inc. and its subsidiaries recognized NT\$275,511,714 thousand as net sales, which includes sale of goods in the amount of NT\$307,199,463 thousand, other operating revenues in the amount of NT\$1,577,448 thousand, and sales returns and discounts in the amount of NT\$33,265,197 thousand for the year ended December 31, 2016. The sale of goods is sale of chips and due to large transaction volume, if the sale is recognized in an improper period, it can have significant impacts on consolidated statements. As a result, we determined the matter to be a key audit matter.

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

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

Significant acquisition

Hsu-Si Investment Corp., a subsidiary of MediaTek Inc., accomplished the take-over bid process to acquire 51% shares of Richtek Technology Corp. on October 7, 2015 and the consideration of the tender offer was NT\$14,770,046 thousand in cash. The fair value of the identifiable net assets acquired was NT\$12,694,209 thousand and the goodwill arising from the acquisition was NT\$8,295,999 thousand. Thereafter, Hsu-Si Investment Corp. acquired the rest of 49% shares of Richtek Technology Corp. in 2016. MediaTek Inc. and its subsidiaries recognized the net assets of the take-over bid based on a provisional estimated amount for the year ended December 31, 2015. The aforementioned fair value of net assets were completed in 2016. The amount of the acquisition was significant and was related to assessment of fair value, as a result, we determined the matter to be a key audit matter.

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

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

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

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

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

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of 2016 consolidated financial statements and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Others

We have audited and expressed an unqualified opinion on the parent company only financial statements of MediaTek Inc. as of and for the years ended December 31, 2016 and 2015.

Ernst & Young
CERTIFIED PUBLIC ACCOUNTANTS
March 22, 2017
Taipei, Taiwan
Republic of China

Notice to Readers

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

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

English Translation of Financial Statements Originally Issued in Chinese
MEDIATEK INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of December 31, 2016 and 2015
(Amounts in thousands of New Taiwan Dollars)

ASSETS	December 31, 2016	%	December 31, 2015	%
Current assets				
Cash and cash equivalents	140,560,858	38	\$ 153,279,687	44
Financial assets at fair value through profit or loss-current	1,970,502	1	3,836,003	1
Available-for-sale financial assets-current	9,428,674	3	7,763,131	2
Held-to-maturity financial assets-current	-	-	1,257,437	-
Debt instrument investments for which no active market exists-current	1,505,492	-	761,282	-
Notes receivables, net	2,811	-	-	-
Trade receivables, net	20,477,995	6	16,195,318	4
Other receivables	5,497,925	1	2,996,512	1
Current tax assets	357,517	-	319,202	-
Inventories, net	33,922,914	9	24,130,344	7
Prepayments	1,505,221	-	2,192,349	1
Non-current assets held for sale	3,633,726	1	-	-
Other current assets	1,413,935	-	2,141,910	1
Total current assets	<u>220,277,570</u>	<u>59</u>	<u>214,873,175</u>	<u>61</u>
Non-current assets				
Financial assets at fair value through profit or loss-noncurrent	4,997,093	2	5,967,301	2
Available-for-sale financial assets-noncurrent	18,914,717	5	8,698,862	3
Held-to-maturity financial assets-noncurrent	-	-	266,498	-
Financial assets measured at cost-noncurrent	6,895,187	2	4,901,012	1
Debt instrument investments for which no active market exists-noncurrent	257,928	-	261,068	-
Investments accounted for using the equity method	5,905,795	2	2,718,990	1
Property, plant and equipment	36,857,740	10	34,390,077	10
Investment property	651,408	-	275,590	-
Intangible assets	72,014,554	19	75,430,673	21
Deferred tax assets	3,265,695	1	2,997,362	1
Refundable deposits	326,152	-	239,755	-
Net defined benefit assets-noncurrent	2,070	-	-	-
Long-term lease receivables	211,137	-	-	-
Long-term prepaid rent	134,726	-	150,864	-
Other non-current assets-others	-	-	78,429	-
Total non-current assets	<u>150,434,202</u>	<u>41</u>	<u>136,376,481</u>	<u>39</u>
Total assets	<u>\$ 370,711,772</u>	<u>100</u>	<u>\$ 351,249,656</u>	<u>100</u>

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

As of December 31, 2016 and 2015

(Amounts in thousands of New Taiwan Dollars)

	Notes	December 31, 2016	%	December 31, 2015	%
LIABILITIES AND EQUITY					
Current liabilities					
Short-term borrowings	6(16)	\$ 54,523,984	15	\$ 49,123,477	14
Financial liabilities at fair value through profit or loss-current	4, 5, 6(2)	45,098	-	32,194	-
Trade payables		23,706,560	6	15,511,132	4
Trade payables to related parties	7	923,557	-	645,120	-
Other payables	6(17)	33,937,995	9	31,558,621	9
Current tax liabilities	4, 5, 6(28)	3,415,214	1	2,269,892	1
Liabilities directly associated with non-current assets held for sale	4, 6(31), 7	675,043	-	-	-
Other current liabilities		2,100,815	1	2,069,823	1
Current portion of long-term liabilities		-	-	56,212	-
Total current liabilities		119,328,266	32	101,266,471	29
Non-current liabilities					
Long-term borrowings	6(18), 8	419,086	-	-	-
Net defined benefit liabilities-noncurrent	4, 6(19)	840,331	-	755,371	-
Deposits received	7	177,512	-	169,738	-
Deferred tax liabilities		3,025,449	1	1,814,256	1
Non-current liabilities-others	4, 5, 6(28)	258,250	-	156,935	-
Total non-current liabilities		4,720,628	1	2,896,300	1
Total liabilities		124,048,894	33	104,162,771	30
Equity attributable to owners of the parent					
Share capital	6(20)				
Common stock		15,821,122	4	15,715,837	5
Capital surplus	6(20), 6(21), 6(32)	89,815,356	24	88,354,178	25
Retained earnings	6(20)				
Legal reserve		34,628,319	10	32,032,476	9
Undistributed earnings		92,324,282	25	96,476,287	27
Other equity	6(21)	12,245,801	3	7,904,918	2
Treasury shares	4, 6(20)	(55,970)	-	(55,970)	-
Equity attributable to owners of the parent		244,778,910	66	240,427,726	68
Non-controlling interests					
Total equity	4, 6(20), 6(33)	1,883,968	1	6,659,159	2
		246,662,878	67	247,086,885	70
Total liabilities and equity		\$ 370,711,772	100	\$ 351,249,656	100

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

Chairman : Ming-Kai Tsai

President : Ching-Iang Hsieh

Chief Financial Officer : David Ki

MEDIATEK INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2016 and 2015

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

Description	Notes	2016	%	2015	%
Net sales	4, 5, 6(22), 7	\$ 275,511,714	100	\$ 213,255,240	100
Operating costs	4, 5, 6(8), 6(23), 7	(177,321,882)	(64)	(121,075,654)	(57)
Gross profit		98,189,832	36	92,179,586	43
Operating expenses	6(23), 7				
Selling expenses		(12,413,733)	(5)	(9,326,054)	(4)
Administrative expenses		(7,015,080)	(3)	(7,416,797)	(4)
Research and development expenses		(55,685,244)	(20)	(49,528,765)	(23)
Total operating expenses		(75,114,057)	(28)	(66,271,616)	(31)
Operating income		23,075,775	8	25,907,970	12
Non-operating income and expenses					
Other income	4, 6(24), 7	3,485,549	2	3,463,849	2
Other gains and losses	4, 6(25)	544,326	-	(116,187)	-
Finance costs	6(26)	(558,906)	-	(545,218)	-
Share of profit of associates accounted for using the equity method	4, 6(10)	666,141	-	658,079	-
Total non-operating income and expenses		4,137,110	2	3,460,523	2
Net income before income tax		27,212,885	10	29,368,493	14
Income tax expense	4, 5, 6(28)	(3,182,353)	(1)	(3,599,761)	(2)
Net income		24,030,532	9	25,768,732	12
Other comprehensive income	4, 6(10), 6(27), 6(28)				
Not to be reclassified to profit or loss in subsequent periods					
Remeasurements of the defined benefit plan		(65,079)	-	315,416	-
Income tax relating to those items not to be reclassified to profit or loss		11,064	-	(53,621)	-
To be reclassified to profit or loss in subsequent periods					
Exchange differences resulting from translating the financial statements of foreign operations		(4,504,523)	(2)	2,396,294	1
Unrealized losses from available-for-sale financial assets		11,297,597	4	(869,752)	-
Share of other comprehensive income of associates accounted for using the equity method		125,345	-	(100,603)	-
Income tax relating to those items to be reclassified to profit or loss		(1,172,986)	-	(92,904)	-
Other comprehensive income, net of tax		5,691,418	2	1,594,830	1
Total comprehensive income		\$ 29,721,950	11	\$ 27,363,562	13
Net income (loss) for the periods attributable to :					
Owners of the parent	6(29)	\$ 23,700,598		\$ 25,958,429	
Non-controlling interests	6(33)	329,934		(189,697)	
		\$ 24,030,532		\$ 25,768,732	
Total comprehensive income for the periods attributable to :					
Owners of the parent		\$ 29,463,494		\$ 27,527,096	
Non-controlling interests		258,456		(163,534)	
		\$ 29,721,950		\$ 27,363,562	
Basic Earnings Per Share (in New Taiwan Dollars)	6(29)	\$ 15.16		\$ 16.60	
Diluted Earnings Per Share (in New Taiwan Dollars)	6(29)	\$ 15.13		\$ 16.57	

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

English Translation of Financial Statements Originally Issued in Chinese
MEDIATEK INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2016 and 2015
(Amounts in thousands of New Taiwan Dollars)

Description	Equity attributable to owners of the parent										Total equity			
	Share capital		Retained earnings					Other equity				Treasury shares	Equity attributable to owners of the parent	Non-controlling interests
	Common stock	Capital collected in advance	Capital surplus	Legal reserve	Special reserve	Undistributed earnings	Exchange differences resulting from translating the financial statements of foreign operations	Unrealized gains (losses) from available-for-sale financial assets	Other					
Balance as of January 1, 2015	\$ 15,714,455	\$ 467	\$ 88,047,914	\$ 27,392,687	\$ 895,749	\$ 108,566,733	\$ 4,218,292	\$ 2,387,821	\$ -	\$ (55,970)	\$ 247,168,148	\$ 437,599	\$ 247,605,747	
Appropriation and distribution of 2014 earnings:	-	-	-	-	-	-	-	-	-	-	-	-	-	
Legal reserve	-	-	-	4,639,789	-	(4,639,789)	-	-	-	-	-	-	-	
Special reserve	-	-	-	(895,749)	895,749	-	-	-	-	-	-	-	-	
Cash dividends	-	-	-	-	-	(34,574,697)	-	-	-	-	(34,574,697)	-	(34,574,697)	
Total	-	-	-	4,639,789	(895,749)	(38,318,737)	-	-	-	-	(34,574,697)	-	(34,574,697)	
Profit for the year ended December 31, 2015	-	-	-	-	-	25,958,429	-	-	-	-	25,958,429	(189,697)	25,768,732	
Other comprehensive income for the year ended December 31, 2015	-	-	-	-	-	269,862	2,285,303	(986,498)	-	-	1,868,667	26,163	1,594,830	
Total comprehensive income	-	-	-	-	-	26,228,291	2,285,303	(986,498)	-	-	27,527,096	(163,534)	27,363,562	
Share-based payment transactions	1,382	(467)	37,279	-	-	-	-	-	-	-	38,194	-	38,194	
Adjustments due to dividends that subsidiaries received from parent company	-	-	171,469	-	-	-	-	-	-	-	171,469	-	171,469	
The differences between the fair value of the consideration paid or received from acquiring or disposing subsidiaries and the carrying amounts of the subsidiaries	-	-	(7,322)	-	-	-	-	-	-	-	(7,322)	-	(7,322)	
Changes in ownership interests in subsidiaries	-	-	61,562	-	-	-	-	-	-	-	61,562	151,275	212,837	
Changes in other capital surplus	-	-	43,276	-	-	-	-	-	-	-	43,276	-	43,276	
Non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	6,233,819	6,233,819	
Balance as of December 31, 2015	15,715,837	-	88,354,178	32,032,476	-	96,476,287	6,503,595	1,401,323	-	(55,970)	240,427,726	6,659,159	247,086,885	
Appropriation and distribution of 2015 earnings:	-	-	-	-	-	-	-	-	-	-	-	-	-	
Legal reserve	-	-	-	2,595,843	-	(2,595,843)	-	-	-	-	-	-	-	
Cash dividends	-	-	-	-	-	(17,287,421)	-	-	-	-	(17,287,421)	-	(17,287,421)	
Total	-	-	-	2,595,843	-	(19,883,264)	-	-	-	-	(17,287,421)	-	(17,287,421)	
Profit for the year ended December 31, 2016	-	-	-	-	-	23,700,598	-	-	-	-	23,700,598	329,934	24,030,532	
Other comprehensive income for the year ended December 31, 2016	-	-	-	-	-	(54,015)	(4,307,700)	10,124,611	-	-	5,762,896	(71,478)	5,691,418	
Total comprehensive income	-	-	-	-	-	23,646,583	(4,307,700)	10,124,611	-	-	29,463,494	258,456	29,721,950	
Share-based payment transactions	-	-	10,353	-	-	-	-	-	-	-	10,353	-	10,353	
Adjustments due to dividends that subsidiaries received from parent company	-	-	85,735	-	-	-	-	-	-	-	85,735	-	85,735	
The differences between the fair value of the consideration paid or received from acquiring or disposing subsidiaries and the carrying amounts of the subsidiaries	-	-	(142,643)	-	-	(7,915,324)	-	-	-	-	(8,057,967)	-	(8,057,967)	
Changes in ownership interests in subsidiaries	-	-	(99,948)	-	-	-	-	-	-	-	(99,948)	220,048	120,100	
Issuance of restricted stock for employees	105,285	-	1,660,064	-	-	-	-	-	(1,476,028)	-	289,321	-	289,321	
Changes in associates and joint ventures accounted for using the equity method	-	-	(52,383)	-	-	-	-	-	-	-	(52,383)	-	(52,383)	
Non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(5,253,695)	(5,253,695)	
Balance as of December 31, 2016	\$ 15,821,122	\$ -	\$ 89,815,356	\$ 34,628,319	\$ -	\$ 92,324,282	\$ 2,195,895	\$ 11,525,934	\$ (1,476,028)	\$ (55,970)	\$ 244,778,910	\$ 1,883,968	\$ 246,662,878	

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

Chairman: Ming-Kai Tsai

President: Ching-Jiang Hsieh

Chief Financial Officer: David Ku

MEDIATEK INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2016 and 2015

(Amounts in thousands of New Taiwan Dollars)

Description	2016	2015
Cash flows from operating activities :		
Profit before tax from continuing operations	\$ 27,212,885	\$ 29,368,493
Adjustments for:		
The profit or loss items which did not affect cash flows:		
Depreciation	3,061,378	2,076,791
Amortization	3,834,700	3,056,971
Bad debt (reversal) provision	(125,735)	184,018
Losses on financial assets and liabilities at fair value through profit or loss	150,092	136,005
Interest expenses	558,906	545,218
Interest income	(2,517,861)	(2,817,091)
Dividend income	(398,259)	(478,971)
Share-based payment expenses	306,762	37,279
Share of profit of associates accounted for using the equity method	(666,141)	(658,079)
Losses on disposal of property, plant and equipment	15,778	13,405
Losses on disposal of intangible assets	909	-
Gains on disposal of investments	(194,683)	(1,394,606)
Impairment of financial assets	71,172	851,478
Changes in operating assets and liabilities:		
Financial assets at fair value through profit or loss	2,505,819	(2,072,298)
Notes receivables	(2,811)	-
Trade receivables	(3,085,118)	(866,371)
Other receivables	(2,175,536)	2,075,440
Inventories	(8,168,244)	792,360
Prepayments	716,052	162,455
Other current assets	731,009	(489,315)
Other non-current assets-others	78,429	(16,411)
Trade payables	8,004,952	226,012
Trade payables to related parties	288,747	(37,181)
Other payables	2,490,761	(4,247,755)
Other current liabilities	65,439	1,288,894
Long-term payables	(56,212)	(35,770)
Net defined benefit liabilities	13,270	11,161
Non-current liabilities-others	101,315	9,070
Cash generated from operating activities:		
Interest received	1,928,317	3,134,028
Dividend received	591,786	787,318
Interest paid	(561,624)	(533,631)
Income tax paid	(2,228,537)	(7,733,039)
Net cash provided by operating activities	32,547,717	23,375,878
Cash flows from investing activities :		
Acquisition of available-for-sale financial assets	(7,600,096)	(10,825,598)
Proceeds from disposal of available-for-sale financial assets	7,860,169	6,943,493
Acquisition of debt instrument investments for which no active market exists	(2,581,738)	(2,079,078)
Proceeds from disposal of debt instrument investments for which no active market exists	787,445	2,250,587
Acquisition of held-to-maturity financial assets	-	(1,773,290)
Proceeds from redemption of held-to-maturity financial assets	1,491,256	673,561
Acquisition of financial assets measured at cost	(2,215,603)	(1,518,260)
Proceeds from disposal of financial assets measured at cost	129	33,708
Proceeds from capital return of financial assets measured at cost	38,268	36,340
Acquisition of investments accounted for using the equity method	(4,612,267)	(480,926)
Proceeds from disposal of investments accounted for using the equity method	-	280,103
Proceeds from capital return of investments accounted for using the equity method	-	21,824
Net cash outflow from acquisition of subsidiaries	(2,406,378)	(14,922,171)
Acquisition of property, plant and equipment	(6,671,275)	(9,368,345)
Proceeds from disposal of property, plant and equipment	67,752	21,279
Increase in refundable deposits	(66,503)	(18,088)
Acquisition of intangible assets	(366,912)	(2,025,250)
Acquisition of investment property	(732)	-
Increase in long-term lease receivables	(209,684)	-
Decrease (Increase) in long-term prepaid rent	16,138	(30,944)
Net cash used in investing activities	(16,470,031)	(32,781,055)
Cash flows from financing activities :		
Increase in short-term borrowings	5,455,795	2,395,130
Proceeds from long-term borrowings	124,286	-
Increase in deposits received	7,774	15,382
Proceeds from exercise of employee stock options	-	30,132
Cash dividends	(17,201,686)	(34,403,228)
Acquisition of subsidiaries	(14,184,102)	(266,458)
Change in non-controlling interests	987,964	219,387
Net cash used in financing activities	(24,809,969)	(32,009,655)
Effect of changes in exchange rate on cash and cash equivalents	(3,198,288)	1,897,013
Net decrease in cash and cash equivalents	(11,930,571)	(39,517,819)
Cash and cash equivalents at the beginning of the year	153,279,687	192,797,506
Cash and cash equivalents at the end of the year	\$ 141,349,116	\$ 153,279,687
Reconciliation of the balances of cash and cash equivalents at the end of the year:		
Cash and cash equivalents on the consolidated balance sheets	\$ 140,560,858	\$ 153,279,687
Cash and cash equivalents included in non-current assets held for sale	788,258	-
Cash and cash equivalents at the end of the year	\$ 141,349,116	\$ 153,279,687

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. Organization and Operation

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

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

The consolidated financial statements were authorized for issue in accordance with a resolution of the Board of Directors on March 22, 2017.

3. Newly Issued or Revised Standards and Interpretations

(1) International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations developed by the International Financial Reporting Interpretation Committee (IFRIC) and Interpretations of IASs (SIC) (collectively, “TIFRS”) issued, revised or amended, which are recognized and not applied by Financial Supervisory Commission (“FSC”), but not yet adopted by MTK and its subsidiaries (“the Company”) 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
IAS 36	“Impairment of Assets” (Amendment)	January 1, 2014
IFRIC 21	“Levies”	January 1, 2014
IAS 39	“Novation of Derivatives and Continuation of Hedge Accounting”	January 1, 2014
IAS 19	“Employee Benefits” (Amendment) - Defined benefit plans: employee contributions	July 1, 2014
Improvements to International Financial Reporting Standards (2010-2012 cycle) :		
IFRS 2	“Share-based Payment”	July 1, 2014
IFRS 3	“Business Combinations”	July 1, 2014
IFRS 8	“Operating Segments”	July 1, 2014
IFRS 13	“Fair Value Measurement”	July 1, 2014
IAS 16	“Property, Plant and Equipment”	July 1, 2014
(To be continued)		

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(Continued)

Standards or Interpretations Numbers	The Projects of Standards or Interpretations	Effective Dates
IAS 24	“Related Party Disclosures”	July 1, 2014
IAS 38	“Intangible Assets”	July 1, 2014
Improvements to International Financial Reporting Standards (2011-2013 cycle) :		
IFRS 1	“First-time Adoption of International Financial Reporting Standards”	July 1, 2014
IFRS 3	“Business Combinations”	July 1, 2014
IFRS 13	“Fair Value Measurement”	July 1, 2014
IAS 40	“Investment Property”	July 1, 2014
IFRS 14	“Regulatory Deferral Accounts”	January 1, 2016
IFRS 11	“Joint Arrangements”- Joint operation (Amendment)	January 1, 2016
IAS 16 and IAS 38	“Property, Plant and Equipment” and “Intangible Assets” (Amendment) - Clarification of Acceptable Methods of Depreciation and Amortization	January 1, 2016
IAS 16 and IAS 41	“Agriculture: Bearer Plants” (Amendment)	January 1, 2016
IAS 27	“Separate Financial Statements” - Equity Method in Separate Financial Statements (Amendment)	January 1, 2016
Improvements to International Financial Reporting Standards (2012-2014 cycle) :		
IFRS 5	“Non-current Assets Held for Sale and Discontinued Operations”	January 1, 2016
IFRS 7	“Financial Instruments : Disclosures”	January 1, 2016
IAS 19	“Employee Benefits”	January 1, 2016
IAS 34	“Interim Financial Reporting”	January 1, 2016
IAS 1	“Presentation of Financial Statements”- Disclosure Initiative	January 1, 2016
IFRS 10, IFRS 12 and IAS 28	“Investment Entities”- Applying the Consolidation Exception	January 1, 2016

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

A. IAS 36 “Impairment of Assets” (Amendment)

The amendments relate to the amendment issued in May 2011 and requires entities to disclose the recoverable amount of an asset (including goodwill) or a cash-generating unit when an impairment loss has been recognized or reversed during the period. The amendments also require detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognized or reversed, including valuation techniques used, level of fair value hierarchy of assets and key assumptions used in measurement.

B. Improvements to International Financial Reporting Standards (2011-2013 cycle):

IFRS 13 “Fair Value Measurement”

The amendments clarify that paragraph 52 of IFRS 13 includes a scope exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis. The objective of the amendments is to clarify that this portfolio exception applies to all contracts within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” or IFRS 9 “Financial Instruments”, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32 “Financial Instruments: Presentation”.

C. Disclosure Initiative- Amendment to IAS 1 “Presentation of Financial Statements”:

The amendments contain (1) clarifying that an entity must not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. The amendments reemphasize that, when a standard requires a specific disclosure, the information must be assessed to determine whether it is material (2) clarifying that specific line items in the statement(s) of profit or loss and other comprehensive income (OCI) and the statement of financial position may be disaggregated, and how an entity shall present additional subtotals, (3) clarifying that entities have flexibility as to the order in which they present the notes to financial statements, but also emphasize that understandability and comparability should be considered by an entity when deciding on that order, (4) removing the examples of the income taxes accounting policy and the foreign currency accounting policy, as these were considered unhelpful in illustrating what significant accounting policies could be, and (5) clarifying that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, classified between those items that will or will not be subsequently reclassified to profit or loss.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

The abovementioned standards and interpretations issued by International Accounting Standards Board (“IASB”) and recognized by FSC so that they are applicable for annual periods beginning on or after January 1, 2017. Apart from item A to C which would have the potential impact on the Company, the remaining standards and interpretations have no material impact on the Company.

(2) 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 15	“Revenue from Contracts with Customers”	January 1, 2018
IFRS 9	“Financial Instruments”	January 1, 2018
IFRS 10 and IAS 28	“Consolidated Financial Statements” and “Investments in Associates and Joint Ventures” (Amendment) - Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures	Postponed indefinitely
IFRS 16	“Leases”	January 1, 2019
IAS 12	“Income Taxes”- Recognition of Deferred Tax Assets for Unrealised Losses	January 1, 2017
IAS 7	“Statement of Cash Flows” (Amendment) - Disclosure Initiative	January 1, 2017
IFRS 15	“Revenue from Contracts with Customers” (Clarification)	January 1, 2018
IFRS 2	“Shared-Based Payment” (Amendment)	January 1, 2018
IFRS 4	“Insurance Contracts” (Amendment)	Not earlier than 2020
IAS 40	“Investment Property” (Amendment)	January 1, 2018
Improvements to International Financial Reporting Standards (2014-2016 cycle) :		
IFRS 1	“First-time Adoption of International Financial Reporting Standards”	January 1, 2018
IFRS 12	“Disclosure of Interests in Other Entities”	January 1, 2017
IAS 28	“Investments in Associates and Joint Ventures”	January 1, 2018
IFRIC 22	“Foreign Currency Transactions and Advance Consideration”	January 1, 2018

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

A. IFRS 15 “Revenue from Contracts with Customers”

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

Step 1 : Identify the contracts with a customer;

Step 2 : Identify the performance obligations in the contract;

Step 3 : Determine the transaction price;

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

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

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

B. IFRS 9 “Financial Instruments”

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

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

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

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

C. IFRS 16 “Leases”

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

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

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

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

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

IAS 28 “Investments in Associates and Joint Ventures”

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

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 still currently determining the potential impact of the standards and interpretations listed under A-F, it is not practicable to estimate their impact on the Company at this point in time. All other standards and interpretations have no material impact on the Company.

4. Summary of Significant Accounting Policies

Statement of Compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (“the Regulations”) and TIFRS as endorsed by FSC.

Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments that have been measured at fair value. The consolidated financial statements are expressed in thousands of New Taiwan Dollars (“NT\$”) unless otherwise stated.

Basis of Consolidation

Preparation principle of consolidated financial statement

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

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

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

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

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

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

If loses control of a subsidiary, it:

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

The consolidated entities are listed as follows:

Investor	Subsidiary	Business nature	Percentage of Ownership		Note
			December 31, 2016	December 31, 2015	
MTK	Hsu-Ta Investment Corp.	General investing	100%	100%	-
MTK	MediaTek Singapore Pte. Ltd.	Research, manufacturing and sales	100%	100%	-
MTK	MediaTek Investment Singapore Pte. Ltd.	General investing	100%	100%	-
MTK	T-Rich Technology (Cayman) Corp.	General investing	100%	100%	-
MTK	MStar Semiconductor Inc.	Research, manufacturing and sales	100%	100%	-
MTK	Hsu-Chuang Investment Corp.	General investing	100%	100%	1
MTK	HFI Innovation Inc.	Intellectual Property Right Management	100%	-	2
Hsu-Ta Investment Corp.	Core Tech Resources Inc.	General investing	100%	100%	-
Hsu-Ta Investment Corp.	MediaTek Capital Corp.	General investing	100%	100%	-
Hsu-Ta Investment Corp.	MediaTek Bangalore Private Limited	Research	0%	0%	-
Hsu-Ta Investment Corp.	Hsu-Si Investment Corp.	General investing	100%	100%	3
MediaTek Capital Corp.	RollTech Technology Co., Ltd.	Software development	67%	67%	-
MediaTek Capital Corp.	E-Vehicle Semiconductor Technology Co., Ltd.	Research, manufacturing and sales	51%	51%	-
MediaTek Capital Corp.	Alpha Imaging Technology Corp.	Research, manufacturing and sales	-	-	4

(To be continued)

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership		Note
			December 31, 2016	December 31, 2015	
MediaTek Capital Corp.	Chingis Technology Corp.	Research	100%	100%	5
MediaTek Capital Corp.	Velocenet Inc.	Research	100%	100%	6
MediaTek Capital Corp.	Nephos (Taiwan) Inc.	Research	100%	100%	6
Core Tech Resources Inc.	MediaTek India Technology Pvt. Ltd.	Research	0%	0%	-
Hsu-Si Investment Corp.	Richtek Technology Corp.	Research, manufacturing and sales	100%	51%	3
Richtek Technology Corp.	Richstar Group Co., Ltd.	General investing	100%	100%	3
Richtek Technology Corp.	Ironman Overseas Co., Ltd.	General investing	100%	100%	3
Richtek Technology Corp.	Richtek Europe Holding B.V.	General investing	100%	100%	3
Richtek Technology Corp.	Richtek Holding International Limited	General investing	100%	100%	3
Richtek Technology Corp.	Richpower Microelectronics Corp.	Manufacturing and sales	100%	100%	3
Richtek Technology Corp.	Li-Yu Investment Corp.	General investing	100%	100%	3
Richtek Technology Corp.	Richnex Microelectronics Corp.	Research, manufacturing and sales	77%	77%	3
Richtek Technology Corp.	Richtek Global Marketing Co., Ltd.	General investing	100%	100%	3
Richstar Group Co., Ltd.	Richtek USA Inc.	Sales and marketing service	100%	100%	3
Ironman Overseas Co., Ltd.	Cosmic-Ray Technology Limited	General investing	100%	100%	3
Richtek Europe Holding B.V.	Richtek Europe B.V.	Marketing service	100%	100%	3

(To be continued)

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership		Note
			December 31, 2016	December 31, 2015	
Cosmic-Ray Technology Limited	Li-We Technology Corp.	Marketing service	100%	100%	3
Richpower Microelectronics Corp.	Richpower Microelectronics Corporation	Management service	100%	100%	3
Richpower Microelectronics Corp.	Richpower Microelectronics Co., Ltd.	Marketing service	100%	100%	3
Li-Yu Investment Corp.	Corporate Event Limited	Marketing service	51%	51%	3
Richtek Global Marketing Co., Ltd	Richtek Korea LLC.	Sales and marketing service	100%	100%	3
Gaintech Co. Limited	MediaTek China Limited	General investing	100%	100%	-
Gaintech Co. Limited	MTK Wireless Limited (UK)	Research	100%	100%	-
Gaintech Co. Limited	MediaTek Japan Inc.	Research	100%	100%	-
Gaintech Co. Limited	MediaTek India Technology Pvt. Ltd.	Research	100%	100%	-
Gaintech Co. Limited	MediaTek Korea Inc.	Research	100%	100%	-
Gaintech Co. Limited	Hesine Technologies International Worldwide Inc.	General investing	52%	52%	-
Gaintech Co. Limited	Gold Rich International (Samoa) Limited	General investing	100%	100%	-
Gaintech Co. Limited	Smarthead Limited	General investing	100%	100%	-
Gaintech Co. Limited	Lepower Limited	General investing	-	-	7
Gaintech Co. Limited	Ralink Technology (Samoa) Corp.	General investing	100%	100%	-
Gaintech Co. Limited	EcoNet (Cayman) Inc.	General investing	83%	88%	-
Gaintech Co. Limited	MediaTek Wireless FZ-LLC	Technology services	100%	100%	-
Gaintech Co. Limited	Digital Lord Limited	General investing	100%	100%	8
Gaintech Co. Limited	Hsu Chia (Samoa) Investment Ltd.	General investing	100%	100%	8
Gaintech Co. Limited	Hsu Fa (Samoa) Investment Ltd.	General investing	100%	100%	8

(To be continued)

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership		Note
			December 31, 2016	December 31, 2015	
Gaintech Co. Limited	Hsu Kang (Samoa) Investment Ltd.	General investing	100%	100%	8
Gaintech Co. Limited	Nephos Pte. Ltd.	Research	100%	100%	9
Gaintech Co. Limited	Nephos Inc.	Research	100%	100%	9
Gaintech Co. Limited	Nephos Cayman Co. Limited	General investing	100%	100%	10
Gaintech Co. Limited	Dynamic Presence Limited	General investing	100%	-	11
Gaintech Co. Limited	White Dwarf Limited	General investing	100%	-	12
MediaTek China Limited	MediaTek (Hefei) Inc.	Research	100%	100%	-
MediaTek China Limited	MediaTek (Beijing) Inc.	Research	100%	100%	-
MediaTek China Limited	MediaTek (Shenzhen) Inc.	Research and technology services	100%	100%	-
MediaTek China Limited	MediaTek (Chengdu) Inc.	Research	100%	100%	-
MediaTek China Limited	MediaTek (Wuhan) Inc.	Research	100%	100%	-
MediaTek China Limited	Xuxin Investment (Shanghai) Inc.	General investing	100%	100%	13
MediaTek China Limited	MediaTek (Shanghai) Inc.	Research	100%	100%	14
MTK Wireless Limited (UK)	MediaTek Sweden AB	Research	100%	100%	-
MTK Wireless Limited (UK)	MediaTek USA Inc.	Research	100%	100%	-
MTK Wireless Limited (UK)	MediaTek Denmark Aps	Research	100%	100%	-
MTK Wireless Limited (UK)	MediaTek Wireless Finland Oy	Research	100%	100%	-
Hesine Technologies International Worldwide Inc.	Hesine Technologies, Inc.	Technology services	100%	100%	-
Gold Rich International (Samoa) Limited	Gold Rich International (HK) Limited	General investing	100%	100%	-

(To be continued)

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership		Note
			December 31, 2016	December 31, 2015	
Digital Lord Limited	Lepower (HK) Limited	General investing	100%	100%	7
Lepower (HK) Limited	Lepower Technologies (Beijing), Inc.	Research, manufacturing and sales	91%	91%	-
E-Vehicle Semiconductor Technology Co., Ltd.	E-Vehicle Holdings Corp.	General investing	100%	100%	-
E-Vehicle Holdings Corp.	E-Vehicle Investment Limited	General investing	100%	100%	-
E-Vehicle Investment Limited	E-Vehicle Semiconductor (Shanghai) Co., Ltd.	Research, manufacturing and sales	100%	100%	-
EcoNet (Cayman) Inc.	Shadow Investment Limited	General investing	100%	100%	-
EcoNet (Cayman) Inc.	EcoNet (HK) Limited	Research and sales	100%	100%	-
EcoNet (Cayman) Inc.	EcoNet Limited	General investing	100%	-	15
EcoNet (HK) Limited	EcoNet (Suzhou) Limited	Research, manufacturing and sales	100%	100%	-
Shadow Investment Limited	MediaTek (Suzhou) Inc.	Research	100%	100%	-
Shadow Investment Limited	MediaTek (Nanjing) Inc.	Research	100%	100%	-
Ralink Technology (Samoa) Corp.	AutoChips Inc.	Research, manufacturing and sales	83%	86%	-
MediaTek Investment Singapore Pte. Ltd.	MStar Semiconductor B.V.	General investing	100%	100%	-
MediaTek Investment Singapore Pte. Ltd.	Lightup International Corp.	General investing	100%	100%	-
MediaTek Investment Singapore Pte. Ltd.	MediaTek Bangalore Private Limited	Research	100%	100%	-
MediaTek Investment Singapore Pte. Ltd.	Gaintech Co. Limited	General investing	100%	100%	-
MediaTek Investment Singapore Pte. Ltd.	Cloud Ranger Limited	General investing	100%	100%	16

(To be continued)

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership		Note
			December 31, 2016	December 31, 2015	
MStar Semiconductor B.V.	White Dwarf Limited	General investing	-	100%	12
MStar Semiconductor, Inc.	MStar France SAS	Software development	100%	100%	-
MStar Semiconductor, Inc.	Shunfonger Investment Holding Limited	General investing	100%	100%	-
MStar Semiconductor, Inc.	IStar Technology Ltd.	General investing and sales	100%	100%	-
MStar Semiconductor, Inc.	MStar Co., Ltd.	General investing	100%	100%	-
MStar Semiconductor, Inc.	Digimoc Holdings Limited	General investing	100%	100%	-
MStar Semiconductor, Inc.	MStar Semiconductor UK Ltd.	Software and customer development	100%	100%	-
MStar Semiconductor, Inc.	ILI Technology Corporation	Research, manufacturing and sales	100%	100%	17
MStar Semiconductor, Inc.	MSilicon Technology Inc.	Research, manufacturing and sales	-	-	4
MStar Semiconductor, Inc.	AIT Holding Ltd.	General investing	100%	100%	4
MStar Semiconductor, Inc.	MStar Technology Pte. Ltd.	Customer development	100%	-	18
MStar Semiconductor, Inc.	MShining International Corporation	Selling of electronic parts	100%	-	18
MSilicon Technology Inc.	Alpha Imaging Technology Corp.	Research, manufacturing and sales	-	-	4
Alpha Imaging Technology Corp.	AIT Holding Ltd.	General investing	-	-	4
AIT Holding Ltd.	AIT Management Ltd.	General investing	100%	100%	4
IStar Technology Ltd.	IStar (HK) Technology Ltd.	General investing and sales	-	-	19

(To be continued)

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership		Note
			December 31, 2016	December 31, 2015	
MStar Co. Ltd.	MStar Software R&D (Shenzhen), Ltd.	Software and customer development	100%	100%	-
Digimoc Holdings Limited	Bubbly Bay Holdings Limited	General investing	100%	100%	-
MStar Software R&D (Shenzhen), Ltd.	MStar Chen Xi Software Shanghai Ltd.	Software and customer development	100%	100%	20
MStar Semiconductor UK Ltd.	MSilicon Technology Corp.	Research and technology services	100%	100%	21
MStar Technology Pte. Ltd.	MStar Semiconductor India Private Limited	Research and technology services	100%	-	22
IStar Technology Ltd.	Beijing Ilitek Technology Co. Ltd.	Research and technology services	100%	-	23
ILI Technology Corporation	ILITEK Holding Inc.	General investing	100%	-	17
ILITEK Holding Inc.	ILI Technology(SZ) LTD.	Technology services	100%	-	17
MediaTek (Shenzhen) Inc.	Shanghai ShanShengChuangXin Investment Partnership (Limited Partnership)	General investing	2%	-	24
MediaTek (Shanghai) Inc.	Shanghai ShanShengChuangXin Investment Partnership (Limited Partnership)	General investing	2%	-	24
Nephos Cayman Co. Limited	Nephos (Hefei) Co. Ltd.	Research, manufacturing and sales	100%	-	25

1. MTK established Hsu-Chuang Investment Corp. in January 2015.
2. MTK established HFI Innovation Inc. in February 2016.
3. Hsu-Ta Investment Corp. established Hsu-Si Investment Corp. (“Hsu-Si Investment”) in September 2015 and accomplished the take-over bid process to acquire 51% shares of Richtek Technology Corp. (“Richtek”). Hsu-Si Investment obtained control over Richtek. Subsidiaries of Richtek were included in the consolidated entities thereafter. In April 2016, Hsu-Si Investment acquired the remaining 49% ownership of Richtek.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

4. MStar Semiconductor, Inc. (“MStar Taiwan”) established MSilicon Technology Inc. (“MSilicon”) in April 2015 and accomplished the take-over bid process to acquire 82% shares of Alpha Imaging Technology Corp. (“Alpha Tech.”). Subsidiaries of Alpha Tech. were included in the consolidated entities thereafter. MSilicon acquired the remaining 18% ownership of Alpha Tech. by paying cash in October 2015. After that, Alpha Tech. was dissolved and MSilicon renamed Alpha Imaging Technology Corp. (“Alpha Tech.”). Moreover, for the purpose of reorganization, Alpha Tech. was dissolved due to the merger with MStar Taiwan in December 2015. The 100% ownership of AIT Holding Ltd., which was previously owned by Alpha Tech., was therefore assumed by MStar Taiwan.
5. MediaTek Capital Corp. accomplished the acquisition of 100% shares of Chingis Technology Corp. in September 2015.
6. MediaTek Capital Corp. established Nephos (Taiwan) Inc. and Velocenet Inc. in November 2015.
7. For the purpose of reorganization, the 100% ownership of Lepower (HK) Limited which was previously owned by Lepower Limited, was transferred to Digital Lord Limited in August 2015. Lepower Limited has been liquidated in November 2015.
8. Gaintech Co. Limited established Digital Lord Limited, Hsu Chia (Samoa) Investment Ltd., Hsu Fa (Samoa) Investment Ltd. and Hsu Kang (Samoa) Investment Ltd. in August 2015.
9. Gaintech Co. Limited established Nephos Pte. Ltd. and Nephos Inc. in November 2015.
10. Gaintech Co. Limited established Nephos Cayman Co. Limited in December 2015.
11. Gaintech Co. Limited established Dynamic Presence Limited in April 2016.
12. For the purpose of reorganization, the 100% ownership of White Dwarf Limited which was previously owned by MStar Semiconductor B.V., was transferred to Gaintech Co. Limited in April 2016.
13. MediaTek (Shanghai) Inc. was renamed Xuxin Investment (Shanghai) Inc. in March 2016.
14. MStar Chen Si Electronics Technology (Shanghai) Co., Ltd. was renamed MediaTek (Shanghai) Inc. in November 2015.
15. EcoNet (Cayman) Inc. established EcoNet Limited in October 2016.
16. MediaTek Investment Singapore Pte. Ltd. established Cloud Ranger Limited in February 2015.
17. MStar Taiwan established Mrise Technology Inc. (“Mrise Tech.”) in July 2015 and accomplished the acquisition of 100% shares of ILI Technology Corporation (“ILI Tech.”) in June 2016. After that, ILI Tech. was dissolved and Mrise Tech. renamed ILI Technology Corporation (“ILI Tech.”). Subsidiaries of ILI Tech. were included in the consolidated entities thereafter.
18. MStar Taiwan established MStar Technology Pte. Ltd. and MShining International Corporation in March 2016.
19. IStar (HK) Technology Ltd. has been dissolved in July 2015.
20. MStar Software R&D (Shenzhen), Ltd. established MStar Chen Xi Software Shanghai Ltd. in April 2015.
21. MStar Semiconductor UK Ltd. established MSilicon Technology Corp. in July 2015.
22. MStar Technology Pte. Ltd. established MStar Semiconductor India Private Limited in March 2016.
23. IStar Technology Ltd. established MStar Chen Xin Technology (Beijing), Ltd. in May 2016. MStar Chen Xin Technology (Beijing), Ltd. was renamed Beijing Ilitek Technology Co. Ltd. in August 2016.
24. MediaTek (Shenzhen) Inc. and MediaTek (Shanghai) Inc. established Shanghai ShanShengChuangXin Investment Partnership (Limited Partnership) in February 2016. Since the Company has the ability to direct the relevant activities of Shanghai ShanShengChuangXin Investment Partnership (Limited Partnership) and has control over it, the Company included it in consolidation.
25. Nephos Cayman Co. Limited established Nephos (Hefei) Co. Ltd. in July 2016.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Foreign currency transactions

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

The functional currency of the subsidiary, MStar Semiconductor, Inc., originally was US\$. Due to significant change of economic environment, MStar Semiconductor, Inc. changed its functional currency from US\$ to NT\$ and accounted prospectively as of January 1, 2015 according to IAS 21 "The Effects of Changes in Foreign Exchange Rates".

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

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

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

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Translation of financial statements in foreign currency

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

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

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

Current and non-current distinction

An asset is classified as current when:

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

All other assets are classified as non-current.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

A liability is classified as current when:

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

All other liabilities are classified as non-current.

Cash and cash equivalents

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

Financial instruments

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

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

A. Financial assets

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

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

a. Financial assets at fair value through profit or loss

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

A financial asset is classified as held for trading if:

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

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

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

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

b. Available-for-sale financial assets

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

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

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

c. Held-to-maturity financial assets

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

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

d. Loans and receivables

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

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

e. Impairment of financial assets

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

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Other loss events include:

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

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

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

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

f. Derecognition of financial assets

A financial asset is derecognized when:

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

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

B. Financial liabilities and equity

a. Classification between liabilities or equity

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

b. Equity instruments

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

c. Financial liabilities

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

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

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

A financial liability is classified as held for trading if:

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

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

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

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

(b) Financial liabilities at amortized cost

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

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

(c) Derecognition of financial liabilities

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

C. Offsetting of financial instruments

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

Derivative financial instrument

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

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

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

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

Inventories

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

Investments accounted for using the equity method

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

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

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

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

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

Property, plant and equipment

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

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

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

Investment property

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

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

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

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Leases

A. The Company as a lessee

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

B. The Company as a lessor

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

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

Intangible assets

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

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

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

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

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

Impairment of non-financial assets

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

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

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

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Treasury shares

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

Revenue recognition

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

A. Sale of goods

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

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

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

B. Interest income

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

C. Dividends

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

Post-employment benefits

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

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

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

Share-based payment transactions

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

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

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

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

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

Income taxes

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

A. Current income tax

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

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

B. Deferred tax

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

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

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

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

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

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

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

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Business combinations and goodwill

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

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

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

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

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

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Non-current assets held for sale

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

5. Significant Accounting Judgments, Estimates and Assumptions

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

Estimates and assumptions

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

A. Fair value of financial instruments

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

B. Valuation of inventory

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

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

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

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

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

D. Revenue recognition - sales returns and discounts

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

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

	December 31, 2016	December 31, 2015
Cash on hand and petty cash	\$ 5,637	\$ 8,449
Checking and savings accounts	16,264,596	32,471,167
Time deposits	123,322,255	120,800,071
Cash equivalents - repurchase agreements	968,370	-
Total	\$ 140,560,858	\$ 153,279,687

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

Cash and cash equivalents were not pledged.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

	December 31, 2016	December 31, 2015
<u>Current</u>		
<u>Held for trading financial assets</u>		
Stocks	\$ -	\$ 4,569
Forward exchange contracts	1,850	232
Subtotal	1,850	4,801
<u>Financial assets designated upon initial recognition at fair value through profit or loss</u>		
Credit-linked deposits	773,895	1,928,967
Exchange rate-linked deposits	609,376	1,057,352
Index-linked deposits	585,381	254,605
Bonds	-	590,278
Subtotal	1,968,652	3,831,202
Total	\$ 1,970,502	\$ 3,836,003
<u>Held for trading financial liabilities</u>		
Forward exchange contracts	\$ 45,098	\$ 32,194
<u>Noncurrent</u>		
<u>Financial assets designated upon initial recognition at fair value through profit or loss</u>		
Credit-linked deposits	\$ 2,747,046	\$ 2,994,699
Bonds	1,110,627	1,121,994
Interest rate-linked deposits	845,741	297,594
Index-linked deposits	293,679	939,650
Exchange rate-linked deposits	-	613,364
Total	\$ 4,997,093	\$ 5,967,301

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(3) Available-for-sale financial assets

	December 31, 2016	December 31, 2015
<u>Current</u>		
Stocks	\$ 4,941,140	\$ 1,692,605
Bonds	2,380,979	3,326,824
Funds	2,083,241	2,708,760
Depository receipts	23,314	34,942
Subtotal	<u>9,428,674</u>	<u>7,763,131</u>
<u>Noncurrent</u>		
Stocks	10,456,103	464,201
Bonds	5,421,848	4,133,564
Funds	3,036,766	4,101,097
Subtotal	<u>18,914,717</u>	<u>8,698,862</u>
Total	<u>\$ 28,343,391</u>	<u>\$ 16,461,993</u>

The Company assessed and concluded its available-for-sale financial assets were partially impaired, and recorded an impairment loss of NT\$489,693 thousand for the year ended December 31, 2015.

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

Available-for-sale financial assets were not pledged.

(4) Held-to-maturity financial assets

	December 31, 2016	December 31, 2015
<u>Current</u>		
Bonds	\$ -	\$ 1,257,437
<u>Noncurrent</u>		
Bonds	-	266,498
Total	<u>\$ -</u>	<u>\$ 1,523,935</u>

Held-to-maturity financial assets were not pledged.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(5) Financial assets measured at cost

	December 31, 2016	December 31, 2015
<u>Available-for-sale financial assets-noncurrent</u>		
Capital	\$ 5,539,220	\$ 3,768,448
Non-publicly traded stocks	1,355,967	1,132,564
Total	<u>\$ 6,895,187</u>	<u>\$ 4,901,012</u>

The Company assessed and concluded its financial assets measured at cost were partially impaired and recorded an impairment loss of NT\$71,172 thousand and NT\$361,785 thousand for the years ended December 31, 2016 and 2015, respectively.

Financial assets measured at cost were not pledged.

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

	December 31, 2016	December 31, 2015
<u>Current</u>		
Bonds	\$ 1,486,607	\$ 682,340
Time deposits	18,885	78,942
Subtotal	<u>1,505,492</u>	<u>761,282</u>
<u>Noncurrent</u>		
Time deposits	257,928	257,756
Preferred stock	-	3,312
Subtotal	<u>257,928</u>	<u>261,068</u>
Total	<u>\$ 1,763,420</u>	<u>\$ 1,022,350</u>

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

(7) Trade receivables

	December 31, 2016	December 31, 2015
Trade receivables	\$ 27,828,309	\$ 22,768,327
Less: allowance for doubtful debts	(294,701)	(363,564)
Less: allowance for sales returns and discounts	(7,055,613)	(6,209,445)
Total	<u>\$ 20,477,995</u>	<u>\$ 16,195,318</u>

Trade receivables were not pledged.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

	Individually impaired	Collectively impaired	Total
As of January 1, 2016	\$ -	\$ 363,564	\$ 363,564
Reversal for the current period	-	(125,735)	(125,735)
Write-off for uncollectable accounts	-	(9,484)	(9,484)
Acquired through business combinations	-	66,452	66,452
Exchange differences	-	(96)	(96)
As of December 31, 2016	<u>\$ -</u>	<u>\$ 294,701</u>	<u>\$ 294,701</u>
As of January 1, 2015	\$ -	\$ 162,112	\$ 162,112
Charge for the current period	-	184,018	184,018
Acquired through business combinations	-	9,095	9,095
Exchange differences	-	8,339	8,339
As of December 31, 2015	<u>\$ -</u>	<u>\$ 363,564</u>	<u>\$ 363,564</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, 2016	\$ 19,232,040	\$ 1,245,723	\$ 232	\$ 20,477,995
December 31, 2015	\$ 14,774,185	\$ 1,408,388	\$ 12,745	\$ 16,195,318

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\$2,084,674 thousand and NT\$1,114,983 thousand as of December 31, 2016 and 2015, respectively.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

As of December 31, 2016 and 2015, trade receivables derecognized were as follows:

A. As of December 31, 2016:

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

B. As of December 31, 2015:

The Factor (Transferee)	Interest rate	Trade receivables derecognized (US\$'000)	Cash withdrawn (US\$'000)	Unutilized (US\$'000)	Credit line (US\$'000)
Taishin International Bank	-	\$ 22,851	\$ -	\$ 22,851	\$ 134,512
BNP Paribas	-	9,855	-	9,855	85,000
HSBC	-	-	-	-	1,000
TC Bank	-	1,014	-	1,014	15,750
ING Bank	-	-	-	-	100,000
Total		\$ 33,720	\$ -	\$ 33,720	\$ 336,262

(8) Inventories

	December 31, 2016	December 31, 2015
Raw materials	\$ 2,896,421	\$ 1,542,303
Work in progress	17,056,723	10,937,902
Finished goods	13,969,770	11,650,139
Net amount	\$ 33,922,914	\$ 24,130,344

For the years ended December 31, 2016 and 2015, the cost of inventories recognized in expenses amounted to NT\$177,321,882 thousand and NT\$121,075,654 thousand, including the write-down of inventories of NT\$2,240,185 thousand for the year ended December 31, 2016 and the reversal gain of the write-down of inventories of NT\$451,977 thousand for the year ended December 31, 2015 because of circumstances that caused the net realizable value of inventory to be lower than its cost no longer existed.

Inventories were not pledged.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(9) Prepayments

	December 31, 2016	December 31, 2015
Prepaid expenses	\$ 447,418	\$ 1,264,953
Input tax	406,737	365,613
Others	651,066	561,783
Total	<u>\$ 1,505,221</u>	<u>\$ 2,192,349</u>

(10) Investments accounted for using the equity method

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

Investees	December 31, 2016		December 31, 2015	
	Carrying amount	Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)
Investments in associates:				
Shenzhen Huiding				
Technology Co., Ltd.	\$ -	-	\$ 1,372,733	24
Airoha Technology Corp.	614,920	26	538,751	24
Others	2,062,758	-	807,506	-
Subtotal	<u>2,677,678</u>		<u>2,718,990</u>	
Investments in jointly controlled entities:				
Yuan Ke (Pingtan)				
Investment Fund Limited				
Partnership	3,228,117	77	-	-
Subtotal	<u>3,228,117</u>		<u>-</u>	
Total	<u>\$ 5,905,795</u>		<u>\$ 2,718,990</u>	

MSilicon Technology Inc. ("MSilicon") acquired 45,585,967 shares (approximately 82% of Alpha Imaging Technology Corp. ("Alpha Tech.") issued shares) of Alpha Tech. through a tender offer. The price of the tender offer was NT\$37 per share and the total amount paid in cash amounted to NT\$1,686,681 thousand. MSilicon obtained control over Alpha Tech. in May 2015 and Alpha Tech. was included in the consolidation entities thereafter. Please refer to Note 6. (30) for more details.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

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

A. Investments in associates

	For the years ended	
	December 31	
	2016	2015
Profit from continuing operations	\$ 765,510	\$ 656,237
Other comprehensive income (post-tax)	(14,037)	(12,768)
Total comprehensive income	<u>\$ 751,473</u>	<u>\$ 643,469</u>

B. Investments in jointly controlled entities

	For the years ended	
	December 31	
	2016	2015
Profit from continuing operations	\$ (2,306)	\$ -
Other comprehensive income (post-tax)	-	-
Total comprehensive income	<u>\$ (2,306)</u>	<u>\$ -</u>

The associates and jointly controlled entities had no contingent liabilities or capital commitments and investments in associates and jointly controlled entities were not pledged as of December 31, 2016 and 2015.

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

(11) Property, plant and equipment

	Land	Buildings and facilities	Machinery equipment	Computer and telecommunication equipment	Testing equipment	Miscellaneous equipment	Construction in progress and equipment awaiting examination	Total
Cost:								
As of January 1, 2016	\$ 5,123,337	\$ 15,806,035	\$ 788,085	\$ 4,351,303	\$ 5,989,356	\$ 2,014,817	\$ 9,351,757	\$ 43,424,690
Additions-acquired separately	11,405	2,020,423	303,280	1,144,287	982,810	512,127	1,420,336	6,394,668
Additions-acquired through business combinations	142,453	607,570	134,893	-	54,211	30,528	16,080	985,735
Disposals	-	(87,632)	(5,144)	(305,934)	(246,582)	(176,553)	-	(821,845)
Transfers	(168,559)	3,455,583	(8,276)	(28,829)	292,111	(26,411)	(3,999,239)	(483,620)
Exchange differences	3	(519,274)	(2,359)	(160,200)	(210,517)	(69,677)	(752,658)	(1,714,682)
As of December 31, 2016	\$ 5,108,639	\$ 21,282,705	\$ 1,210,479	\$ 5,000,627	\$ 6,861,389	\$ 2,284,831	\$ 6,036,276	\$ 47,784,946
As of January 1, 2015	\$ 3,393,510	\$ 10,941,518	\$ 77,459	\$ 2,919,794	\$ 4,513,002	\$ 1,279,050	\$ 7,793,385	\$ 30,917,718
Additions-acquired separately	112,870	869,728	14,890	1,574,746	1,353,897	502,122	5,083,875	9,512,128
Additions-acquired through business combinations	1,553,396	854,558	721,272	1,689	21,690	538,358	2,327	3,693,290
Disposals	-	(165)	(19,845)	(200,480)	(248,820)	(242,817)	-	(712,127)
Transfers	7,011	3,135,450	-	50,398	355,458	8,394	(3,563,742)	(7,031)
Exchange differences	56,550	4,946	(5,691)	5,156	(5,871)	(70,290)	35,912	20,712
As of December 31, 2015	\$ 5,123,337	\$ 15,806,035	\$ 788,085	\$ 4,351,303	\$ 5,989,356	\$ 2,014,817	\$ 9,351,757	\$ 43,424,690

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

	Land	Buildings and facilities	Machinery equipment	Computer and telecommunication equipment	Testing equipment	Miscellaneous equipment	Construction in progress and equipment awaiting examination	Total
Depreciation and impairment:								
As of January 1, 2016	\$ -	\$ 2,491,917	\$ 80,014	\$ 2,326,856	\$ 3,178,509	\$ 957,317	\$ -	\$ 9,034,613
Depreciation	-	513,924	199,786	860,368	909,347	575,939	-	3,059,364
Disposals	-	(37,566)	(3,714)	(296,656)	(236,583)	(163,796)	-	(738,315)
Transfers	-	(33,908)	(2,898)	(11,387)	(6,820)	(30,750)	-	(85,763)
Exchange differences	-	(30,457)	(1,485)	(106,398)	(143,483)	(60,870)	-	(342,693)
As of December 31, 2016	\$ -	\$ 2,903,910	\$ 271,703	\$ 2,772,783	\$ 3,700,970	\$ 1,277,840	\$ -	\$ 10,927,206
As of January 1, 2015	\$ -	\$ 2,110,031	\$ 14,033	\$ 1,930,859	\$ 2,722,355	\$ 845,885	\$ -	\$ 7,623,163
Depreciation	-	377,087	67,882	583,421	699,815	348,286	-	2,076,491
Disposals	-	(90)	(4,919)	(193,729)	(241,895)	(236,810)	-	(677,443)
Transfers	-	(86)	242	-	(242)	164	-	78
Exchange differences	-	4,975	2,776	6,305	(1,524)	(208)	-	12,324
As of December 31, 2015	\$ -	\$ 2,491,917	\$ 80,014	\$ 2,326,856	\$ 3,178,509	\$ 957,317	\$ -	\$ 9,034,613
Net carrying amount as of:								
December 31, 2016	\$ 5,108,639	\$ 18,378,795	\$ 938,776	\$ 2,227,844	\$ 3,160,419	\$ 1,006,991	\$ 6,036,276	\$ 36,857,740
December 31, 2015	\$ 5,123,337	\$ 13,314,118	\$ 708,071	\$ 2,024,447	\$ 2,810,847	\$ 1,057,500	\$ 9,351,757	\$ 34,390,077

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

Please refer to Note 6. (31) for more details on property, plant and equipment reclassified to non-current assets held for sale.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(12) Investment property

	Land	Buildings	Total
Cost:			
As of January 1, 2016	\$ 218,885	\$ 56,857	\$ 275,742
Addition	475	257	732
Transfers	(19,699)	432,959	413,260
As of December 31, 2016	<u>\$ 199,661</u>	<u>\$ 490,073</u>	<u>\$ 689,734</u>
As of January 1, 2015	\$ -	\$ -	\$ -
Addition	219,071	58,172	277,243
Transfers	(186)	(1,315)	(1,501)
As of December 31, 2015	<u>\$ 218,885</u>	<u>\$ 56,857</u>	<u>\$ 275,742</u>
Depreciation and impairment:			
As of January 1, 2016	\$ -	\$ 152	\$ 152
Depreciation	-	2,014	2,014
Transfers	-	36,198	36,198
Exchange differences	-	(38)	(38)
As of December 31, 2016	<u>\$ -</u>	<u>\$ 38,326</u>	<u>\$ 38,326</u>
As of January 1, 2015	\$ -	\$ -	\$ -
Depreciation	-	300	300
Transfers	-	(148)	(148)
As of December 31, 2015	<u>\$ -</u>	<u>\$ 152</u>	<u>\$ 152</u>
Net carrying amount as of:			
December 31, 2016	<u>\$ 199,661</u>	<u>\$ 451,747</u>	<u>\$ 651,408</u>
December 31, 2015	<u>\$ 218,885</u>	<u>\$ 56,705</u>	<u>\$ 275,590</u>

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

	For the years ended	
	December 31,	
	2016	2015
Rental income from investment properties	\$ 11,613	\$ 2,116
Less:		
Direct operating expenses from investment properties generating rental income	(2,014)	(300)
Total	\$ 9,599	\$ 1,816

Investment properties were not pledged.

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

Based on comparative approach:	December 31,	December 31,
	2016	2015
Fair value	\$ 697,311	\$ -
Based on comparative approach and income approach:	December 31,	December 31,
	2016	2015
Fair value	\$ 254,334	\$ 279,040
Income capitalization rate	1.23%-2.67%	1.37%-2.64%

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

(13) Intangible assets	Cost					Total
	Trademarks	Software	Customer relationship	Patents, IPs and others	Goodwill	
As of January 1, 2016	\$ 772,487	\$ 1,780,819	\$ 5,106,265	\$ 8,560,262	\$ 63,402,900	\$ 79,622,733
Additions-acquired separately	-	220,874	-	146,038	-	366,912
Additions-acquired through business combinations	-	23,297	-	73,618	161	97,076
Disposals	-	(3,566)	-	(1,791)	-	(5,357)
Transfers	-	(4,247)	7,881	(1,745)	(238)	1,651
Exchange differences	-	(1,643)	-	(60,150)	(16,018)	(77,811)
As of December 31, 2016	\$ 772,487	\$ 2,015,534	\$ 5,114,146	\$ 8,716,232	\$ 63,386,805	\$ 80,005,204
As of January 1, 2015	\$ 422,914	\$ 1,273,257	\$ 2,621,937	\$ 6,603,476	\$ 54,136,415	\$ 65,057,999
Additions-acquired separately	-	476,060	-	3,130,464	-	3,606,524
Additions-acquired through business combinations	351,605	29,848	2,484,328	2,011,415	9,242,681	14,119,877
Disposals	-	-	-	(3,063,096)	-	(3,063,096)
Transfers	-	64,729	-	(56,267)	-	8,462
Exchange differences	(2,032)	(63,075)	-	(65,730)	23,804	(107,033)
As of December 31, 2015	\$ 772,487	\$ 1,780,819	\$ 5,106,265	\$ 8,560,262	\$ 63,402,900	\$ 79,622,733

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

	Trademarks	Software	Customer relationship	Patents, IPs and others	Goodwill	Total
Amortization and impairment:						
As of January 1, 2016	\$ 166,996	\$ 1,138,028	\$ 801,037	\$ 2,085,999	\$ -	\$ 4,192,060
Amortization	112,599	410,984	640,251	2,670,866	-	3,834,700
Disposals	-	(2,657)	-	(1,791)	-	(4,448)
Transfers	-	30	-	(968)	-	(938)
Exchange differences	-	3,529	-	(34,253)	-	(30,724)
As of December 31, 2016	\$ 279,595	\$ 1,549,914	\$ 1,441,288	\$ 4,719,853	\$ -	\$ 7,990,650
As of January 1, 2015						
As of January 1, 2015	\$ 90,032	\$ 856,677	\$ 329,940	\$ 3,023,524	\$ -	\$ 4,300,173
Amortization	76,964	277,241	457,687	2,245,079	-	3,056,971
Disposals	-	-	-	(3,063,096)	-	(3,063,096)
Transfers	-	56,172	-	(56,172)	-	-
Exchange differences	-	(52,062)	13,410	(63,336)	-	(101,988)
As of December 31, 2015	\$ 166,996	\$ 1,138,028	\$ 801,037	\$ 2,085,999	\$ -	\$ 4,192,060
Net carrying amount as of:						
December 31, 2016	\$ 492,892	\$ 465,620	\$ 3,672,858	\$ 3,996,379	\$ 63,386,805	\$ 72,014,554
December 31, 2015	\$ 605,491	\$ 642,791	\$ 4,305,228	\$ 6,474,263	\$ 63,402,900	\$ 75,430,673

Please refer to Note 6. (31) for more details on intangible assets reclassified to non-current assets held for sale.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(14) Impairment testing of goodwill

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

The recoverable amount of the cash-generating unit is determined based on the value-in-use calculated using cash flow projections discounted by the pre-tax discount rate from financial budgets approved by management covering a five-year period. The projected cash flows reflect the change in demand for products and services. As a result of the analysis, the Company did not identify any impairment for the goodwill of NT\$63,386,805 thousand.

Key assumptions used in value-in-use calculations

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

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

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

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

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

Sensitivity to changes in assumptions

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(15) Long-term lease receivables

The Company has machinery lease agreements, which is accounted for as a finance lease, and the lease term is from May 27, 2016 to December 31, 2019. The details of long-term lease receivables are as follows:

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

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

There were no long-term lease receivables for the year ended December 31, 2015.

(16) Short-term borrowings

	December 31, 2016	December 31, 2015
Unsecured bank loans	<u>\$ 54,523,984</u>	<u>\$ 49,123,477</u>
Interest rates	<u>0.85~1.94%</u>	<u>0.68~2.22%</u>

(17) Other payables

	December 31, 2016	December 31, 2015
Accrued salaries and bonuses	\$ 19,205,041	\$ 17,157,719
Accrued royalties	2,208,453	1,252,298
Others	12,524,501	13,148,604
Total	<u>\$ 33,937,995</u>	<u>\$ 31,558,621</u>

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(18) Long-term borrowings

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

Lenders	As of		Maturity date and terms of repayment
	December 31, 2016	Interest Rate (%)	
Unsecured Long-Term Loan from Mega International Commercial Bank	\$ 15,000	1.79%	Effective from June 15, 2016 to June 15, 2023. Principle is repaid in 21 quarterly payments with monthly interest payment.
Secured Long-Term Loan from Mega International Commercial Bank	109,286	1.79%	Effective from June 15, 2016 to June 15, 2023. Principle is repaid in 21 quarterly payments with monthly interest payment.
Secured Long-Term Loan from Shin Kong Bank	294,800	1.40%	Effective from April 30, 2015 to April 30, 2025. Principle is repaid in 16 semi-annually payments with monthly interest payment.
Total	<u>\$ 419,086</u>		

Details of long-term loans as of December 31, 2015 are as follows:

None

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

(19) Post-employment benefits plans

Defined contribution plan

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

Pension expenses under the defined contribution plan for the years ended December 31, 2016 and 2015 were NT\$1,565,151 thousand and NT\$1,391,878 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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

The Ministry of Labor is in charge of establishing and implementing the fund utilization plan in accordance with the regulations for revenues, expenditures, safeguard and utilization of the labor retirement fund. The pension fund is invested in-house or under mandate, based on a passive-aggressive investment strategy for long-term profitability. The Ministry of Labor establishes checks and risk management mechanism based on the assessment of risk factors including market risk, credit risk and liquidity risk, in order to maintain adequate flexibility to achieve targeted return without over-exposure of risk. With regard to utilization of the pension fund, the minimum earnings in the annual distributions on the final financial statement shall not be less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Treasury funds can be used to cover the deficits after the approval of the competent authority. As the Company does not participate in the operation and management of the pension fund, no disclosure on the fair value of the plan assets categorized in different classes could be made in accordance with IAS 19. The Company expects to contribute NT\$10,056 thousand to its defined benefit plan during the 12 months beginning after December 31, 2016.

The weighted average duration of the defined benefit obligation was 12 to 23 years and 14 to 21 years as of December 31, 2016 and 2015, respectively.

Pension costs recognized in profit or loss are as follows:

	For the years ended	
	December 31	
	2016	2015
Current service cost	\$ 7,767	\$ 5,012
Net interest on the net defined benefit liabilities	14,727	20,023
Subtotal	22,494	25,035
Overestimate on book	956	-
Total	\$ 23,450	\$ 25,035

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

	December 31,	December 31,
	2016	2015
Defined benefit obligation	\$ 1,087,733	\$ 992,500
Plan assets at fair value	(250,449)	(237,129)
Subtotal	837,284	755,371
Overestimate on book	977	-
Subtotal	838,261	755,371
Net defined benefit assets	2,070	-
Net defined benefit liabilities	\$ 840,331	\$ 755,371

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

	Defined benefit obligation	Plan assets at fair value	Net defined benefit liabilities (assets)
As of January 1, 2016	\$ 992,500	\$ (237,129)	\$ 755,371
Current service cost	8,723	-	8,723
Interest expenses (income)	18,783	(4,056)	14,727
Past service cost and gains and losses arising from settlements	(956)	-	(956)
Subtotal	26,550	(4,056)	22,494
Remeasurements of the defined benefit liabilities/assets:			
Actuarial gains and losses arising from changes in demographic assumptions	(23,553)	-	(23,553)
Actuarial gains and losses arising from changes in financial assumptions	140,480	-	140,480
Experience adjustments	(53,360)	-	(53,360)
Remeasurements of the defined benefit assets	-	1,935	1,935
Subtotal	63,567	1,935	65,502
Contributions by employer	-	(10,620)	(10,620)
Acquired through business combinations	5,116	(579)	4,537
Subtotal	1,087,733	(250,449)	837,284
Overestimate on book	977	-	977
As of December 31, 2016	\$ 1,088,710	\$ (250,449)	\$ 838,261
	Defined benefit obligation	Plan assets at fair value	Net defined benefit liabilities (assets)
As of January 1, 2015	\$ 1,062,300	\$ (121,304)	\$ 940,996
Current service cost	5,012	-	5,012
Interest expenses (income)	25,346	(5,323)	20,023
Subtotal	30,358	(5,323)	25,035
Remeasurements of the defined benefit liabilities/assets:			
Actuarial gains and losses arising from changes in demographic assumptions	(2,412)	-	(2,412)
Actuarial gains and losses arising from changes in financial assumptions	(242,240)	-	(242,240)
Experience adjustments	(69,843)	-	(69,843)
Remeasurements of the defined benefit assets	-	(921)	(921)
Subtotal	(314,495)	(921)	(315,416)
Payment of benefit obligation	(10,758)	-	(10,758)
Contributions by employer	-	(8,129)	(8,129)
Acquired through business combinations	225,095	(101,452)	123,643
As of December 31, 2015	\$ 992,500	\$ (237,129)	\$ 755,371

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

	December 31, 2016	December 31, 2015
Discount rate	1.50%~2.00%	1.50%~2.00%
Expected rate of salary increases	2.00%~5.00%	2.75%~5.00%

Sensitivity analysis for significant assumption are shown below:

	For the years ended December 31			
	2016		2015	
	Defined benefit obligation increase	Defined benefit obligation decrease	Defined benefit obligation increase	Defined benefit obligation decrease
Discount rate increases by 0.5%	\$ -	\$ (99,211)	\$ -	\$ (92,287)
Discount rate decreases by 0.5%	110,784	-	103,316	-
Rate of future salary increases by 0.5%	108,172	-	101,627	-
Rate of future salary decreases by 0.5%	-	(98,004)	-	(91,710)

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

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

(20) Equity

A. Share capital

MTK's authorized capital as of December 31, 2016 and 2015 was NT\$20,000,000 thousand, divided into 2,000,000,000 shares (including 20,000,000 shares reserved for exercise of employee stock options at each period), each at a par value of NT\$10. MTK's issued capital was NT\$15,821,122 thousand and NT\$15,715,837 thousand, divided into 1,582,112,191 shares and 1,571,583,686 shares as of December 31, 2016 and 2015, respectively. Each share has one voting right and a right to receive dividends.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

MTK issued 138,142 new shares during the year ended December 31, 2015, at par value of NT\$10 for employee stock options exercised.

On June 24, 2016, the general shareholders' meeting approved to issue restricted stocks for employees. 10,528,505 shares of restricted stocks for employees were issued in 2016. Relevant regulators' approvals have been obtained and related registration processes have been completed.

B. Capital surplus

	December 31, 2016	December 31, 2015
Additional paid-in capital	\$ 85,867,533	\$ 85,867,533
Treasury share transactions	1,455,706	1,369,971
The differences between the fair value of the consideration paid or received from acquiring or disposing subsidiaries and the carrying amounts of the subsidiaries	-	142,643
Changes in ownership interests in subsidiaries	176,894	276,842
Donated assets	1,261	1,261
From share of changes in net assets of associates	29,475	81,858
Employee stock options	513,409	503,056
Restricted stocks for employees	1,660,064	-
Others	111,014	111,014
Total	<u>\$ 89,815,356</u>	<u>\$ 88,354,178</u>

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

C. Treasury shares

As of December 31, 2016 and 2015, 7,794,085 shares of MTK's common shares amounting to NT\$55,970 thousand were held by the subsidiary, MediaTek Capital Corp. These shares held by MediaTek Capital Corp. were acquired for the purpose of financing before the amendment of the Company Act on November 12, 2001.

As of December 31, 2016 and 2015, MTK did not hold any other treasury shares.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

D. Retained earnings and dividend policy

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

- a. Reserve for tax payments;
- b. Offset 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. Remuneration for directors and supervisors, at a maximum of 0.5% of remaining net profits after deducting item (a) to (d). The remuneration for directors and supervisors shall be paid in cash;
- f. The remaining net profits and the retained earnings from previous years will be allocated as employees' bonus and shareholders' dividend. Except for setting aside certain portion of it for distribution in the future, the guideline for distribution is that the amount of employees' bonus shall not be lower than 1% of the sum of employees' bonus and shareholders' dividends. Employees' bonus may be paid in cash or in stock. When the bonus is made in the form of stock, the qualified employees may include employees from affiliates companies who meet certain qualification. The board of directors is authorized to determine the qualification of such employees.

However, according to the addition of Article 235-1 of the Company Act announced on May 20, 2015, the Company shall provide a fixed amount or percentage of profit for the current year to be distributed as "employees' compensation." MTK's shareholders' meeting held on June 24, 2016 passed the resolution of amending the Articles of Incorporation, according to the revised Articles of Incorporations, 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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

According to the Company Act, MTK needs to set aside amount to legal reserve unless where such legal reserve amounts to the total authorized capital. The legal reserve can be used to offset the deficit of MTK. When MTK incurs no loss, it may distribute the portion of legal reserve which exceeds 25% of the paid-in capital by issuing new shares or by cash in proportion to the number of shares being held by each of the shareholders.

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

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

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

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Details of the 2015 and 2014 earnings distribution and dividends per share were resolved by general shareholders' meeting on June 24, 2016 and June 12, 2015, respectively, are as follows:

	Appropriation of earnings		Dividends per share (NT\$)	
	2015	2014	2015	2014
Legal reserve	\$ 2,595,843	\$ 4,639,789	-	-
Special reserve reversal	-	(895,749)	-	-
Cash dividends-common stock	17,287,421	34,574,697	\$ 11.00	\$ 22.00
Total	<u>\$ 19,883,264</u>	<u>\$ 38,318,737</u>		

Please refer to Note 6. (23) for relevant information on estimation basis and recognized amounts of employees' compensations and remunerations to directors and supervisors.

E. Non-controlling interests

	For the years ended	
	December 31	
	2016	2015
Beginning balance	\$ 6,659,159	\$ 437,599
Gains (Losses) attributable to non-controlling interests	329,934	(189,697)
Other comprehensive income, attributable to non-controlling interests, net of tax:		
Remeasurements of defined benefit plans	-	(8,067)
Exchange differences resulting from translating the financial statements of foreign operations	(71,478)	10,388
Unrealized gains from available-for-sale financial assets	-	23,842
Changes in ownership interests in subsidiaries	220,048	151,275
Issuance of employees share options by the subsidiary	-	13,885
Acquisition through business combinations	-	6,219,934
Acquisition of additional interest in a subsidiary	(6,126,135)	-
Others	872,440	-
Ending balance	<u>\$ 1,883,968</u>	<u>\$ 6,659,159</u>

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(21) Share-based payment plans

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

Share-based payment plans in MTK

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

Detail information relevant to the share-based payment plan as of December 31, 2016 is as follows:

Date of grant	Total number of options granted	Total number of options outstanding	Shares available for option holders	Exercise price (NT\$) (Note)
2008.03.31	1,134,119	239,755	239,755	\$ 355.6
2008.08.28	1,640,285	419,656	419,656	342.2
2009.08.18	1,382,630	502,681	502,681	426.6
2010.08.27	1,605,757	637,183	637,183	402.1
2010.11.04	65,839	8,134	8,134	374.5
2011.08.24	2,109,871	1,105,121	1,105,121	275.6
2012.08.14	1,346,795	884,912	884,912	284.9
2013.08.22	1,436,343	1,121,805	675,208	365.6

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

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

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

Employee Stock Option	For the years ended			
	December 31			
	2016		2015	
	Options (Unit)	Weighted-average Exercise Price per Share (NT\$)	Options (Unit)	Weighted-average Exercise Price per Share (NT\$)
Outstanding at beginning of year	5,457,731	\$ 341.8	5,754,998	\$ 341.4
Granted	-	-	-	-
Exercised	-	-	(91,442)	329.5
Forfeited (Expired)	(538,484)	341.2	(205,825)	337.0
Outstanding at end of year	<u>4,919,247</u>	339.4	<u>5,457,731</u>	341.8
Exercisable at end of year	<u>4,472,650</u>		<u>4,220,220</u>	
Weighted-average fair value of options granted during the year (in NT\$)	<u>\$ -</u>		<u>\$ -</u>	

The weighted average share price at the date of exercise of those options was NT\$481.7 for the year ended December 31, 2015.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

The information on the outstanding share-based payment plan as of December 31, 2016 and 2015 is as follows:

		December 31,		December 31,	
		2016		2015	
Date of grant	Range of Exercise Price (NT\$)	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	\$ 342.2~355.6	-	\$ 347.1	-	\$ 349.5
2009.07.27	426.6	-	426.6	0.13	429.5
2010.05.10	374.5~402.1	0.17	401.8	1.17	404.2
2011.08.09	275.6	1.17	275.6	2.17	277.4
2012.08.09	284.9	2.13	284.9	3.13	286.8
2013.08.09	365.6	3.17	365.6	4.17	368.0

Restricted stocks plan for employees of MTK

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

MTK has issued 10,528,505 gratuitous restricted stocks on September 6, 2016. The issuance process was granted effective registration by the securities authority.

The fair value of the restricted stocks issued was NT\$254.5 per share. The estimated compensation expense amounted to NT\$1,765,349 thousand in total based on the vesting conditions and will be recognized during the vesting period. For the year ended December 31, 2016, MTK had recognized NT\$289,321 thousand as compensation expense and NT\$1,476,028 thousand as unearned employee compensation, which were recorded under salary expense and other equity, respectively.

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

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

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

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

	For the year ended December 31, 2016
January 1, 2016	-
Granted (share)	10,528,505
Cancelled (share)	-
December 31, 2016	<u>10,528,505</u>

Share-based payment plans of Subsidiaries

In November 2014, board of directors of EcoNet (Cayman) Inc. resolved to issue employee stock options with a total number of 1,235,388 units, each unit eligible to subscribe for one common share of EcoNet (Cayman) Inc. The options may be granted to qualified employees of EcoNet (Cayman) Inc. and its subsidiaries. 152,682 units of stock options were granted on January 31, 2015. The total numbers of outstanding stock options were 859,848 units and 900,511 units as of December 31, 2016 and 2015, respectively.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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	\$ 174

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

	Unit	Weighted average
	(in thousand)	exercise price
		per Share (NT\$)
January 1, 2016	916	\$ 160
Granted	-	-
Exercised	(897)	195
Forfeited (Expired)	(7)	160
Outstanding at end of year	<u>12</u>	195
Exercisable at end of year	<u>12</u>	

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

On April 29, 2016, subsidiary of Hsu-Si Investment paid NT\$195 in cash per share for the rest of Richtek's outstanding shares. After Hsu-Si Investment acquired 100% of Richtek's shares, Richtek was delisted from TWSE. On November 9, 2015, the board of directors of Richtek resolved to revise the share appreciation rights plan. The revision of content was to acquire employee's stocks by using NT\$195 per share after the date Richtek was delisted from TWSE to substitute closing price at the date of exercise for paying intrinsic value to employee. The Company measured the fair value of share appreciation rights at the assumption of share price in NT\$195 per share for the year ended December 31, 2016. Please refer to Note 6. (30) for relevant information for the merger with Richtek Technology Corp.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Richtek recognized compensation expenses due to the share appreciation rights plan in the amount of NT\$2,512 thousand for the year ended December 31, 2016. As of December 31, 2016, related liabilities recognized amounted to NT\$420 thousand. The vested intrinsic value of share appreciation rights was NT\$420 thousand.

Share-based compensation expenses recognized (reversed) for employee services received for the years ended December 31, 2016 and 2015, are shown in the following table:

	For the years ended	
	December 31	
	2016	2015
Total equity-settled transactions	\$ 14,929	\$ 37,279
Restricted stocks for employees	289,321	-
Share appreciation rights plan	2,512	(2,285)
Total	\$ 306,762	\$ 34,994

The Company did not modify or cancel the share-based payment plan for the years ended December 31, 2016 and 2015.

(22) Sales

	For the years ended	
	December 31	
	2016	2015
Sale of goods	\$ 307,199,463	\$ 242,408,508
Other operating revenues	1,577,448	1,279,000
Less: Sales returns and discounts	(33,265,197)	(30,432,268)
Net sales	\$ 275,511,714	\$ 213,255,240

(23) Summary statement of employee benefits, depreciation and amortization expenses by function for the years ended December 31, 2016 and 2015:

	For the years ended					
	December 31					
	2016			2015		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Pension	\$ 27,553	\$ 1,561,048	\$ 1,588,601	\$ 18,748	\$ 1,398,165	\$ 1,416,913
Others	\$ 608,211	\$ 41,092,759	\$ 41,700,970	\$ 389,756	\$ 37,539,700	\$ 37,929,456
Depreciation	\$ 169,808	\$ 2,891,570	\$ 3,061,378	\$ 40,149	\$ 2,036,642	\$ 2,076,791
Amortization	\$ 951	\$ 3,833,749	\$ 3,834,700	\$ 190	\$ 3,056,781	\$ 3,056,971

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

A resolution was passed at a shareholders' general meeting of MTK held on June 24, 2016 to amend the Articles of Incorporation of the Company. According to the amended Articles of Incorporation of MTK, no lower than 1% of profit of the current year is distributable as employees' compensation and no higher than 0.5% of profit of the current year is distributable as remuneration to directors. However, MTK's accumulated losses shall have been covered (if any). MTK may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors, have the profit distributable as employees' compensation in the form of shares or in cash; and in addition thereto a report of such distribution is submitted to the shareholders' meeting. Information on the Board of Directors' resolution regarding the employees' compensation and remuneration to directors can be obtained from the "Market Observation Post System" on the website of the TWSE.

MTK accrued employees' compensation and remuneration to directors based on a specific rate of profit of the year ended December 31, 2016. If the estimated amounts differ from the actual distribution resolved by the Board of Directors, MTK will recognize the change as an adjustment to income of next year. If the Board of Directors resolves to distribute employees' compensation in stock, the number of shares distributed is determined by dividing the amount of bonuses by the closing price (after considering the effect of cash and stock dividends) of shares on the day preceding the Board of Directors' meeting. A resolution was approved at a Board of Directors' meeting held on March 22, 2017 to distribute NT\$309,130 thousand and NT\$42,661 thousand in cash as employees' compensation and remuneration to directors, respectively. There were no material differences between the aforementioned approved amounts and the amounts charged against earnings in 2016.

MTK accrued employees' compensation and remuneration to directors and supervisors based on a specific rate of profit of current year and the amend Articles of Incorporation of MTK for the year ended December 31, 2015. 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. A resolution was approved at a Board of Directors' meeting held on March 17, 2016 to distribute NT\$351,232 thousand and NT\$47,416 thousand in cash as employees' compensation and remuneration to directors and supervisors, respectively. There were no material differences between the aforementioned approved amounts and the amounts charged against earnings in 2015.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(24) Other income

	For the years ended	
	December 31	
	2016	2015
Interest income	\$ 2,517,861	\$ 2,817,091
Dividend income	398,259	478,971
Rental income	79,751	15,610
Others	489,678	152,177
Total	\$ 3,485,549	\$ 3,463,849

(25) Other gains and losses

	For the years ended	
	December 31	
	2016	2015
Losses on disposal of property, plant and equipment	\$ (15,778)	\$ (13,405)
Losses on disposal of intangible assets	(909)	-
(Losses) Gains on disposal of investments		
Available-for-sale financial assets	(96,624)	1,009,310
Held-to-maturity financial assets	(16,497)	(1,062)
Financial assets measured at cost	(1,000)	14,657
Investments accounted for using the equity method	308,804	371,701
Foreign exchange gains (losses)	597,572	(600,518)
Impairment losses		
Available-for-sale financial assets	-	(489,693)
Financial assets measured at cost	(71,172)	(361,785)
Losses on financial assets at fair value through profit or loss	(163,538)	(6,158)
Losses on financial liabilities at fair value through profit or loss	(12,087)	(32,194)
Others	15,555	(7,040)
Total	\$ 544,326	\$ (116,187)

(26) Finance costs

	For the years ended	
	December 31	
	2016	2015
Interest expenses on borrowings	\$ 558,906	\$ 545,218

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(27) Components of other comprehensive income

For the year ended December 31, 2016 :

	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	\$ (65,079)	\$ -	\$ (65,079)	\$ 11,064	\$ (54,015)
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	(4,504,523)	-	(4,504,523)	-	(4,504,523)
Unrealized (losses) gains from available-for-sale financial assets	11,200,973	96,624	11,297,597	(1,172,986)	10,124,611
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	125,345	-	125,345	-	125,345
Total of other comprehensive income	\$ 6,756,716	\$ 96,624	\$ 6,853,340	\$ (1,161,922)	\$ 5,691,418

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

For the year ended December 31, 2015 :

	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	\$ 315,416	\$ -	\$ 315,416	\$ (53,621)	\$ 261,795
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	2,396,294	-	2,396,294	-	2,396,294
Unrealized (losses) gains from available-for-sale financial assets	(350,135)	(519,617)	(869,752)	(92,904)	(962,656)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(100,603)	-	(100,603)	-	(100,603)
Total of other comprehensive income	\$ 2,260,972	\$ (519,617)	\$ 1,741,355	\$ (146,525)	\$ 1,594,830

(28) Income tax

The major components of income tax expense are as follows:

	For the years ended December 31	
	2016	2015
Current income tax	\$ 3,355,119	\$ 2,277,016
Deferred tax (income) expenses	(219,062)	1,237,147
Others	46,296	85,598
Income tax expense recognized in profit or loss	\$ 3,182,353	\$ 3,599,761

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Income tax recognized in other comprehensive income

	For the years ended	
	December 31,	
	2016	2015
Deferred tax expense:		
Remeasurements of the defined benefit plan	\$ (11,064)	\$ 53,621
Unrealized gains on available-for-sale financial assets	1,172,986	92,904
Income tax relating to components of other comprehensive income	\$ 1,161,922	\$ 146,525

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

	For the years ended	
	December 31	
	2016	2015
Accounting profit before tax from continuing operations	\$ 27,212,885	\$ 29,368,493
Tax at the domestic rates applicable to profits in the country concerned	\$ 8,612,158	\$ 7,684,846
Tax effect of revenues exempt from taxation	(2,627,270)	(1,740,691)
Tax effect of expenses not deductible for tax purposes	10,639	814,522
Investment tax credits	(367,191)	(234,206)
Tax effect of deferred tax assets/liabilities	(3,024,560)	(3,642,374)
10% surtax on undistributed retained earnings	634,503	810,220
Others	(55,926)	(92,556)
Total income tax expense recognized in profit or loss	\$ 3,182,353	\$ 3,599,761

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

For the year ended December 31, 2016

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

For the year ended December 31, 2015

	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Charged directly to equity	Exchange differences	Ending balance
Temporary differences						
Unrealized allowance for inventory obsolescence	\$ 746,577	\$ 193,729	\$ -	\$ -	\$ -	\$ 940,306
Allowance for sales returns and discounts	1,248,125	(638,460)	-	-	-	609,665
Amortization of difference for tax purpose	157,399	(122,949)	-	-	-	34,450
Amortization of goodwill difference for tax purpose	(619,240)	(786,951)	-	-	-	(1,406,191)
Unused tax losses	112,343	(22,942)	-	-	-	89,401
Unused tax credits	196,457	3,657	-	-	-	200,114
Others	725,117	136,769	(146,525)	-	-	715,361
Deferred tax expense		<u>\$ (1,237,147)</u>	<u>\$ (146,525)</u>	<u>\$ -</u>	<u>\$ -</u>	
Net deferred tax assets	<u>\$ 2,566,778</u>					<u>\$ 1,183,106</u>
Reflected in balance sheet as follows:						
Deferred tax assets	<u>\$ 3,196,429</u>					<u>\$ 2,997,362</u>
Deferred tax liabilities	<u>\$ (629,651)</u>					<u>\$ (1,814,256)</u>

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Integrated income tax information

	December 31, 2016	December 31, 2015
Balance of the imputation credit account	\$ 9,743,192	\$ 9,546,658

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

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

The assessment of income tax returns

As of December 31, 2016, the assessment of the income tax returns of MTK and its material subsidiaries are as follows:

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

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

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

(29) Earnings per share

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

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

	For the years ended	
	December 31	
	2016	2015
A. Basic earnings per share		
Profit attributable to ordinary equity owners of the parent (in thousand NT\$)	\$ 23,700,598	\$ 25,958,429
Weighted average number of ordinary shares outstanding for basic earnings per share (share)	1,563,789,601	1,563,777,089
Basic earnings per share (NT\$)	\$ 15.16	\$ 16.60
B. Diluted earnings per share		
Profit attributable to ordinary equity owners of the parent (in thousand NT\$)	\$ 23,700,598	\$ 25,958,429
Weighted average number of ordinary shares outstanding for basic earnings per share (share)	1,563,789,601	1,563,777,089
Effect of dilution:		
Employees' compensation-stock (share)	1,716,700	2,079,669
Employee stock options (share) (Note)	-	445,369
Restricted stocks for employees (share)	1,330,974	-
Weighted average number of ordinary shares outstanding after dilution (share)	1,566,837,275	1,566,302,127
Diluted earnings per share (NT\$)	\$ 15.13	\$ 16.57

Note: There were no dilutive employee stock options for the year ended December 31, 2016.

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

(30) Business combinations

The Acquisition for Alpha Imaging Technology Corp. ("Alpha Tech.")

Subsidiary MStar Taiwan established MSilicon in April 2015. On April 9, 2015, the board of directors of MStar Taiwan approved a tender offer by MSilicon for shares of Alpha Tech. The terms of the offer was for NT\$37 in cash for each common share of Alpha Tech. outstanding stock. MSilicon completed the tender offer and paid NT\$1,686,681 thousand in cash to acquire 82% of the shares of Alpha Tech. on May 8, 2015. The original 15% interest of Alpha Tech. acquired before the acquisition of de facto control was remeasured at fair value and the difference was recognized as a gain.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

On August 26, 2015, the board of directors of MSilicon approved a merger with Alpha Tech. with the effective merger date set for October 2, 2015. MSilicon, the surviving company, was renamed Alpha Imaging Technology Corp. after the merger. Thereafter, the board of directors of MStar Taiwan approved a merger with Alpha Tech. (originally MSilicon). The effective merger date was December 31, 2015. Alpha Tech. was dissolved thereafter and MStar Taiwan was the surviving company.

Alpha Tech. is a fabless IC design company specialized in image processing. The Company's image processing chips are mainly applied to TV camera, Web camera and car DV. The purpose of this tender offer is to meet the Company's long-term development strategies. The merger would enhance the Company's competitive advantage by expansion of product lines and integration of existing products and resources. In the long term, the Company expects there would be positive effect on consolidated net worth per share and earnings per share.

The Company has measured the non-controlling interest in Alpha Tech. at fair value. The fair value was determined based on market approach. The significant inputs were the share price of Alpha Tech. as of the acquisition date.

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

	Fair value recognized on the acquisition date
Cash and cash equivalents	\$ 349,630
Current assets	348,948
Funds and investments	32,701
Property, plant and equipment	57,816
Intangible assets- computer software, patent and customer relationship	370,821
Other non-current assets	37,858
	<u>1,197,774</u>
Current liabilities	(99,704)
Other liabilities	(2,670)
	<u>(102,374)</u>
Fair value of identifiable net assets	<u>\$ 1,095,400</u>

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

Goodwill of Alpha Tech. is as follows:

	Amount
Cash consideration (Note)	\$ 1,454,635
Fair value of equity interest in Alpha Tech. originally held by the Company	314,460
Add: non-controlling interest at fair value	266,458
Less: identifiable net assets at fair value	(1,095,400)
Goodwill	<u>\$ 940,153</u>

Note: MSilicon Technology Inc. acquired 71% of Alpha Tech.'s common shares from third parties by paying NT\$1,454,635 thousand. In addition, MSilicon paid NT\$82,414 thousand and NT\$149,632 thousand to MediaTek Capital Corp. and MediaTek Investment Singapore Pte. Ltd. to obtain 4% and 7% of Alpha Tech.'s common shares, respectively.

Cash flows on acquisition:

	Amount
Net cash acquired from the subsidiary	\$ 349,630
Transaction costs attributable to cash paid	(1,454,635)
Net cash flow-out on acquisition	<u>\$ (1,105,005)</u>

The goodwill of NT\$940,153 thousand comprises the value of expected synergies arising from acquisition.

If the combination had taken place on January 1, 2015, revenues and net income of the Company for the year ended December 31, 2015 would have been NT\$213,498,270 thousand and NT\$25,742,170 thousand, respectively.

The merger with Chingis Technology Corp.

In August 2015, the board of directors of MediaTek Capital Corp. ("MediaTek Capital"), approved to acquire shares of Chingis Technology Corp. ("Chingis Tech."). MediaTek Capital paid NT\$887,932 thousand in cash to acquire 100% shares of Chingis Tech on September 10, 2015.

Chingis Tech. is a company specialized in Specialty Memory IC products design and development. Their products are mainly applied to digital consumer, computer peripheral, wireless communication, networking, and industrial control. The purpose of this acquisition is to meet the Company's long-term development strategies. The merger would enhance the Company's competitive advantage by strengthening research and development capabilities. In the long term, the Company expects there would be positive effect on consolidated net worth per share and earnings per share.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

The fair values of the identifiable assets and liabilities of Chingis Tech. on the acquisition date were:

	Fair value recognized on the acquisition date
Cash and cash equivalents	\$ 97,290
Current assets	415,172
Property, plant and equipment	38,735
Intangible assets- core techniques	563,000
Other non-current assets	14,560
	<u>1,128,757</u>
Current liabilities	(140,131)
Other liabilities	(106,985)
	<u>(247,116)</u>
Fair value of identifiable net assets	<u>\$ 881,641</u>

Goodwill of Chingis Tech. is as follows:

	Amount
Cash consideration	\$ 887,932
Less: identifiable net assets at fair value	(881,641)
Goodwill	<u>\$ 6,291</u>

Cash flows on acquisition:

	Amount
Net cash acquired from the subsidiary	\$ 97,290
Transaction costs attributable to cash paid	(887,932)
Net cash flow-out on acquisition	<u>\$ (790,642)</u>

The goodwill of NT\$6,291 thousand comprises the value of expected synergies arising from acquisition.

If the combination had taken place on January 1, 2015, revenues and net income of the Company for the year ended December 31, 2015 would have been NT\$213,718,873 thousand and NT\$25,737,708 thousand, respectively.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

The merger with Richtek Technology Corp.

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

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

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

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

	Fair value recognized on the acquisition date
Cash and cash equivalents	\$ 1,743,522
Current assets	5,598,331
Funds and investments	116,005
Property, plant and equipment	3,653,938
Intangible assets - patent, trademark and customer relationship	3,935,255
Other non-current assets	453,858
	<u>15,500,909</u>

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

	Fair value recognized on the acquisition date
Current liabilities	(2,758,580)
Other non-current liabilities	(48,120)
	(2,806,700)
Fair value of identifiable net assets	\$ 12,694,209
Goodwill of Richtek is as follows:	Amount
Cash consideration	\$ 14,770,046
Add: non-controlling interest	6,220,162
Less: identifiable net assets at fair value	(12,694,209)
Goodwill	\$ 8,295,999
Cash flows on acquisition:	Amount
Net cash acquired from the subsidiary	\$ 1,743,522
Transaction costs attributable to cash paid	(14,770,046)
Net cash flow-out on acquisition	\$ (13,026,524)

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

If the combination had taken place on January 1, 2015, revenues and net income of the Company for the year ended December 31, 2015 would have been NT\$222,866,562 thousand and NT\$26,940,353 thousand, respectively.

The merger with ILI Technology Corp.

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

	Fair value recognized on the acquisition date
Cash and cash equivalents	\$ 1,236,304
Current assets	3,051,349
Property, plant and equipment	985,735
Intangible assets- patent, trademark and customer relationship	96,915
Other non-current assets	65,218
	<u>5,435,521</u>
Current liabilities	(1,788,459)
Other non-current liabilities	(4,541)
	<u>(1,793,000)</u>
Fair value of identifiable net assets	<u>\$ 3,642,521</u>

Goodwill of ILI Tech. is as follows:

	Amount
Cash consideration	\$ 3,642,682
Less: identifiable net assets at fair value	(3,642,521)
Goodwill	<u>\$ 161</u>

Cash flows on acquisition:

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

The identifiable net assets recognized in the consolidated financial statements as of December 31, 2016 were based on a provisional assessment of fair value as the Company had sought an independent valuation for the net assets owned by ILI Tech. The results of this valuation had not been received at the issuance date of the financial statements. There could be adjustments on the assessment upon finalizing the valuation report.

The goodwill of NT\$161 thousand comprises the value of expected synergies arising from acquisition.

From the acquisition date to December 31, 2016, ILI Tech. has contributed NT\$4,714,417 thousand of revenue and NT\$147,411 thousand to the net income of the Company.

If the combination had taken place on January 1, 2016, revenues and net income of the Company for the year ended December 31, 2016 would have been NT\$278,643,064 thousand and NT\$24,090,459 thousand, respectively.

(31) Non-current assets held for sale

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

	<u>As of December 31, 2016</u>
Non-current assets held for sale	
Cash and cash equivalents	\$ 788,258
Available-for-sale financial assets-current	1,012,974
Debt instrument investments for which no active market exists-current	1,012,974
Trade receivables, net	269,335
Other receivables	265,856
Inventories, net	196,038
Prepayments	29,664
Property, plant and equipment	47,197
Intangible assets	9,586
Refundable deposits	1,844
	<u>3,633,726</u>

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

	<u>As of December 31, 2016</u>
Liabilities directly associated with non-current assets held for sale	
Trade payables	(150,731)
Trade payables to related parties	(10,310)
Other payables	(424,202)
Current tax liabilities	(31,111)
Other current liabilities	(58,689)
	<u>(675,043)</u>
Net carrying amount of the disposal group	<u>\$ 2,958,683</u>

The Company has completed the transfer of shareholding rights of AutoChips Inc. as of the issuance date of the consolidated financial statements.

(32) Changes in ownership interests in subsidiaries

Changes in ownership of subsidiaries

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

E-Vehicle Semiconductor Technology Co., Ltd., Hesine Technologies International Worldwide Inc. and AutoChips issued new shares in 2015 and the Company did not subscribe the new shares in proportionate to its original ownership interest. Consequently, the ownership interest in these companies changed but control over these companies remained. The difference between the fair value of purchased equity investments and the increase in the non-controlling interest was NT\$61,562 thousand and was recorded in equity.

(33) Subsidiaries that have material non-controlling interests

The Company paid NT\$195 in cash per share for the rest of 49% shares of Richtek Technology Corp. in 2016. Thereafter, the Company owned 100% ownership of Richtek Technology Corp. There is no subsidiary that has material non-controlling interests in 2016.

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Proportion of equity interest held by non-controlling interests:

Name	Country of Incorporation and operation	December 31, 2015
Richtek	Taiwan	49%

Accumulated balances of material non-controlling interest:

	December 31, 2015
Richtek	\$ 5,995,265

Loss allocated to material non-controlling interest:

	For the year ended December 31, 2015
Richtek	\$ (243,180)

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

Summarized information of profit or loss for the period from October 7, 2015 to December 31, 2015:

	Richtek
Operating revenue	\$ 2,990,835
Loss for the period from continuing operations	\$ (496,285)
Total comprehensive income for the period	\$ (463,425)

Summarized information of financial position as at December 31, 2015:

	Richtek
Current assets	\$ 6,632,388
Non-current assets	\$ 8,198,865
Current liabilities	\$ 2,527,995
Non-current liabilities	\$ 67,146

Summarized cash flow information for the period from October 7, 2015 to December 31, 2015:

	Richtek
Operating activities	\$ 2,191,631
Investing activities	(565,911)
Financing activities	(1,083,062)
Net increase in cash and cash equivalents	558,718

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

7. Related Party Transactions

(1) Significant transactions with related parties

A. Sales

	For the years ended	
	December 31	
	2016	2015
Associates	\$ -	\$ 3,190

The trade credit term for associates was 45 to 60 days. The trade credit term for third-party customers was 30 to 150 days, or may pay their accounts in advance.

B. IC testing, experimental services, and manufacturing technology services

	For the years ended	
	December 31	
	2016	2015
Other related parties	\$ 3,709,590	\$ 2,642,515

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

C. Consign research and development expenses and license expenses

	For the years ended	
	December 31	
	2016	2015
Associates	\$ -	\$ 6,570
Other related parties	26,656	42,472
Total	\$ 26,656	\$ 49,042

D. Purchases

	For the years ended	
	December 31	
	2016	2015
Associates	\$ 10,033	\$ 10,777

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

E. Rental income

	For the years ended	
	December 31	
	2016	2015
Associates	\$ 17,174	\$ 857
Other related parties	4,184	10,128
Total	\$ 21,358	\$ 10,985

NT\$1,710 thousand and NT\$876 thousand were received from associates and other related parties and were accounted for deposits received due to a lease of office space for the years ended December 31, 2016 and 2015, respectively.

F. Acquisition of intangible assets

	For the years ended	
	December 31	
	2016	2015
Other related parties	\$ -	\$ 9,944

G. Other receivables from related parties

	December 31, 2016	December 31, 2015
Associates	\$ 3,003	\$ 75

H. Trade payables to related parties

	December 31, 2016	December 31, 2015
Associates	\$ 1,187	\$ -
Other related parties	922,370	645,120
Total	\$ 923,557	\$ 645,120

I. Liabilities directly associated with non-current assets held for sale

	December 31, 2016	December 31, 2015
Other related parties	\$ 10,310	\$ -

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

J. Key management personnel compensation

	For the years ended	
	December 31	
	2016	2015
Short-term employee benefits (Note)	\$ 883,232	\$ 761,319
Share-based payment	129,048	151
Post-employment benefits	4,643	14,189
Termination benefits	1,972	9,544
Total	\$ 1,018,895	\$ 785,203

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
	December 31, 2016	December 31, 2015	
Debt instrument investments for which no active market exists-current	\$ -	\$ 15,714	Land lease guarantee
Debt instrument investments for which no active market exists-current	9,180	9,180	Customs clearance deposits
Debt instrument investments for which no active market exists-current	-	1,439	Credit guarantee
Debt instrument investments for which no active market exists-current	-	50,000	Wafer capacity guarantee
Debt instrument investments for which no active market exists-current	-	2,609	Import guarantee
Debt instrument investments for which no active market exists-current	9,705	-	Lease execution deposits
Debt instrument investments for which no active market exists-noncurrent	3,152	3,139	Customs clearance deposits
Debt instrument investments for which no active market exists-noncurrent	537	564	Customs clearance deposits

(To be continued)

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(Continued)

Assets pledged as collateral	Carrying amount		Purpose of pledge
	December 31, 2016	December 31, 2015	
Debt instrument investments for which no active market exists-noncurrent	118	125	Lease execution deposits
Debt instrument investments for which no active market exists-noncurrent	200,000	200,000	Project performance deposits
Debt instrument investments for which no active market exists-noncurrent	-	9,705	Lease execution deposits
Debt instrument investments for which no active market exists-noncurrent	-	20,000	Court pledged
Debt instrument investments for which no active market exists-noncurrent	24,157	24,223	Customs clearance deposits
Debt instrument investments for which no active market exists-noncurrent	22,964	-	Land lease guarantee
Debt instrument investments for which no active market exists-noncurrent	7,000	-	Land lease guarantee
Property, plant and equipment - buildings	419,686	-	Long-term borrowing
Property, plant and equipment - buildings and land	336,578	-	Long-term borrowing
Total	<u>\$ 1,033,077</u>	<u>\$ 336,698</u>	

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:

	December 31, 2016	December 31, 2015
Not later than one year	\$ 582,716	\$ 675,534
Later than one year but not later than five years	1,099,372	1,394,772
Later than five years	471,622	589,696
Total	<u>\$ 2,153,710</u>	<u>\$ 2,660,002</u>

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Operating lease expenses are as follows:

	For the years ended	
	December 31	
	2016	2015
Minimum lease payments	\$ 892,330	\$ 855,754

(2) Legal claim contingency

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

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

B. Luciano F. Paone filed a complaint in the United States District Court for the South District of New York against subsidiary MediaTek USA Inc. on February 6, 2015, alleging infringement of United States Patent No. 6,259,789. The court dismissed the claims with prejudice against MediaTek USA Inc. pursuant to the parties’ joint stipulation on March 2, 2016.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- C. Innovatio IP Ventures, LLC (“Innovatio”) filed a complaint in the United States District Court for the Northern District of Illinois against subsidiary MediaTek USA Inc. on March 16, 2015, alleging infringement of United States Patent Nos. 6,697,415, 5,844,893, 5,740,366, 7,916,747, 6,665,536, 7,013,138, 7,107,052, 5,546,397, 7,710,907, 7,710,935, 6,714,559, 7,457,646 and 6,374,311. The court dismissed the claims with prejudice against MediaTek USA Inc. pursuant to the parties’ joint stipulation on August 22, 2016.
- D. Mariner IC Inc. (“Mariner”) filed a complaint in the United States District Court for the Eastern District of Texas against MTK and subsidiary MediaTek USA Inc. on April 25, 2016, alleging infringement of United States Patent Nos. 5,560,666 and 5,846,874. The operations of MTK and subsidiary MediaTek USA Inc. would not be materially affected by this case.
- E. Semcon IP Inc. (“Semcon”) filed a complaint in the United States District Court for the Eastern District of Texas against MTK and subsidiary MediaTek USA Inc. on April 25, 2016, alleging infringement of United States Patent Nos. 7,100,061, 7,596,708, 8,566,627 and 8,806,247. The operations of MTK and subsidiary MediaTek USA Inc. would not be materially affected by this case.
- F. ZiiLabs Inc. Ltd. (“ZiiLabs”) filed a complaint with the Commission against MTK and subsidiary MediaTek USA Inc. on December 16, 2016 alleging infringement of United States Patent No. 6,677,952, 6,950,350, 7,518,616, 8,643,659. The operations of MTK and subsidiary MediaTek USA Inc. would not be materially affected by this case.

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

- G. Advanced Micro Devices, Inc. and ATI Technologies ULC (collectively “AMD”) filed a complaint with the Commission against MTK and subsidiary MediaTek USA Inc. on January 24, 2017 alleging infringement of United States Patent No. 7,633,506, 7,796,133, 8,760,454, and 9,582,846. The operations of MTK and subsidiary MediaTek USA Inc. would not be materially affected by this case.
- H. Broadcom Corporation (“Broadcom”) filed a complaint with the Commission against MTK and subsidiaries MediaTek USA Inc. and MStar Semiconductor Inc. on March 7, 2017 alleging infringement of United States Patent No. 8,284,844, 7,590,059, 8,068,171, 7,310,104, and 7,342,967. The operations of MTK and subsidiaries MediaTek USA Inc. and MStar Semiconductor Inc. would not be materially affected by this case.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

The Company will handle these cases carefully.

10. Losses due to Major Disasters

None

11. Significant Subsequent Events

- (1) On February 10, 2017, the board of directors of subsidiary Hsu-Si Investment Corp. (“Hsu-Si”) approved a tender offer to acquire shares of Airoha Technology Corp. (“Airoha”). The tender offer period was set from February 13, 2017 to March 14, 2017. The terms of the offer was NT\$110 in cash for each outstanding common share of Airoha. As of March 14, 2017, the number of shares validly tendered and not withdrawn was 32,191,281 shares (approximately 53% of Airoha’s outstanding common shares) and the actual number of shares acquired was 24,230,620 shares (approximately 40% of Airoha’s outstanding common shares). The total consideration was NT\$2,665,368 thousand and the terms of the tender offer were fulfilled.

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. Once Airoha becomes part of MediaTek Group, the deal would provide customers with greater convenience in sourcing, and create scale for the Group in enhancing overall competitiveness and performance.

- (2) The board of directors of subsidiary Hsu-Chuang Investment Corp. (“Hsu-Chuang”) approved to terminate the contract “Creation of Superficies of Commercial Development Project of the High Speed Rail Hsinchu Station Designated District” signed with Bureau of High Speed Rail, Ministry of Transportation and Communications of R.O.C. as a result of Hsu-Chuang’s restructuring of resources planning. The termination of the contract has no significant effect to the Company.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

12. Others

(1) Financial instruments

A. Categories of financial instruments

Financial assets

	December 31, 2016	December 31, 2015
Financial assets at fair value through profit or loss:		
Held for trading financial assets	\$ 1,850	\$ 4,801
Financial assets designated upon initial recognition at fair value through profit or loss	6,965,745	9,798,503
Subtotal	6,967,595	9,803,304
Available-for-sale financial assets	28,343,391	16,461,993
Financial assets measured at cost	6,895,187	4,901,012
Held-to-maturity financial assets	-	1,523,935
Loans and receivables:		
Cash and cash equivalents (excluding cash on hand and petty cash)	140,555,221	153,271,238
Debt instrument investments for which no active market exists	1,763,420	1,022,350
Trade receivables	20,480,806	16,195,318
Other receivables	5,497,925	2,996,512
Subtotal	168,297,372	173,485,418
Total	\$ 210,503,545	\$ 206,175,662

Financial liabilities

	December 31, 2016	December 31, 2015
Financial liabilities at fair value through profit or loss:		
Held for trading financial liabilities	\$ 45,098	\$ 32,194
Financial liabilities at amortized cost:		
Short-term borrowings	54,523,984	49,123,477
Trade payables (including related parties)	24,630,117	16,156,252
Other payables	33,937,995	31,558,621
Long-term payables (including current portion)	-	56,212
Long-term borrowings	419,086	-
Subtotal	113,511,182	96,894,562
Total	\$ 113,556,280	\$ 96,926,756

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

B. Fair values of financial instruments

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

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

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

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

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

	Carrying amount as of	
	December 31, 2016	December 31, 2015
Financial assets		
Held-to-maturity financial assets		
Bonds	\$ -	\$ 1,523,935

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

	Fair value as of	
	December 31, 2016	December 31, 2015
Financial assets		
Held-to-maturity financial assets		
Bonds	\$ -	\$ 1,507,295

c. Fair value measurement hierarchy

(a) Fair value measurement hierarchy

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

Level 1, 2 and 3 inputs are described as follows:

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

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

Level 3: Unobservable inputs for the assets or liabilities.

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

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

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

As of December 31, 2016

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

Financial liabilities:

Financial liabilities at fair value

through profit or loss

Derivative financial instruments	\$ -	\$ 45,098	\$ -	\$ 45,098
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As of December 31, 2015

	Level 1	Level 2	Level 3	Total
<u>Financial assets:</u>				
Financial assets at fair value				
through profit or loss				
Stocks	\$ 4,569	\$ -	\$ -	\$ 4,569
Bonds	-	-	1,712,272	1,712,272
Derivative financial instruments	-	232	-	232
Linked deposits	-	3,162,565	4,923,666	8,086,231
Available-for-sale financial assets				
Depository receipts	34,942	-	-	34,942
Stocks	1,996,275	127,830	32,701	2,156,806
Bonds	6,327,276	-	1,133,112	7,460,388
Funds	5,560,767	-	1,249,090	6,809,857
Total	<u>\$ 13,923,829</u>	<u>\$ 3,290,627</u>	<u>\$ 9,050,841</u>	<u>\$ 26,265,297</u>

Financial liabilities:

Financial liabilities at fair value

through profit or loss

Derivative financial instruments	\$ -	\$ 32,194	\$ -	\$ 32,194
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MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

For the years ended December 31, 2016 and 2015, there were no transfers between Level 1 and Level 2 of the fair value hierarchy.

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

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

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

	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, 2015	\$ 63,199	\$ 1,692,128	\$ 216,868	\$ 470,350	\$ -	\$ 2,442,545
Amount recognized in profit or loss	(16,312)	(24,684)	1,246	2,130	-	(37,620)
Amount recognized in OCI	-	-	24,297	(8,301)	-	15,996
Acquisitions	1,731,641	3,931,193	890,701	1,299,740	32,701	7,885,976
Settlements	(66,256)	(674,971)	-	(514,829)	-	(1,256,056)
As of December 31, 2015	\$ 1,712,272	\$ 4,923,666	\$ 1,133,112	\$ 1,249,090	\$ 32,701	\$ 9,050,841

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Total losses related to bonds, funds and linked deposits on hand recognized for the years ended December 31, 2016 and 2015 amounted to NT\$146,631 thousand and NT\$26,751 thousand, respectively.

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

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

As of December 31, 2016:

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

As of December 31, 2015:

	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	15.08~ 21.17	The higher the Price-Book ratio of similar entities, the higher the fair value estimated number	10% increase (decrease) in the Price-Book ratio of similar entities would result in an increase (decrease) in profit or loss by NT\$3,539 thousand.

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

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

As of December 31, 2016

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

As of December 31, 2015

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets not measured at fair value but for which the fair value is disclosed:				
Held-to-maturity financial assets				
Bonds	\$ 1,507,295	\$ -	\$ -	\$ 1,507,295
Investment property	\$ -	\$ -	\$ 279,040	\$ 279,040

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

D. Derivative financial instruments

The Company's derivative financial instruments held for trading 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 December 31, 2016	TWD to USD	Sell USD 220,000	January 2017
As of December 31, 2016	TWD to USD	Sell USD 40,000	February 2017
As of December 31, 2015	TWD to USD	Sell USD 146,000	January 2016

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

(2) Financial risk management objectives and policies

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

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

A. Market risk

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

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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.

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 years ended December 31, 2016 and 2015 decreases/increases by NT\$4,860 thousand and NT\$6,581 thousand, while equity decreases/increases by NT\$32,213 thousand and NT\$6,313 thousand, respectively.

When NTD appreciates or depreciates against CNY by 0.1%, the profit for the years ended December 31, 2016 and 2015 decreases/increases by NT\$4 thousand and NT\$88 thousand, while equity decreases/increases by NT\$7,194 thousand and NT\$3,641 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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

investments in credit-linked deposits and interest rate-linked deposits are affected by interest rate. The market value would decrease (even lower than the principal) when the interest rate increases, and vice versa. The market values of exchange rate-linked deposits are affected by interest rates and changes in the value and volatility of the underlying. The following sensitivity analysis focuses on interest rate risk and does not take into account the interdependencies between risk variables.

The interest rate sensitivity analysis is performed on items exposed to interest rate risk as of the end of the reporting period, including investments and bank borrowings with variable interest rates. At the reporting date, an increase/decrease of 10 basis points of interest rate in a reporting period could cause the profit for the years ended December 31, 2016 and 2015 to increase/decrease by NT\$11,188 thousand and NT\$6,464 thousand, respectively.

c. Other price risk

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

A change of 1% in the price of the listed equity securities classified under available-for-sale could cause the other comprehensive income for the years ended December 31, 2016 and 2015 to increase/decrease by NT\$196,146 thousand and NT\$75,920 thousand, respectively.

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

B. Credit risk management

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

As of December 31, 2016 and 2015, receivables from top ten customers represented 37.58% and 34.94% of the total trade receivables of the Company, respectively. The credit concentration risk of other accounts receivables was insignificant.

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

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

C. Liquidity risk management

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Non-derivative financial instruments

	<u>Less than 1 year</u>	<u>1 to 5 years</u>	<u>Less than 5 years</u>	<u>Total</u>
<u>As of December 31, 2016</u>				
Short-term borrowings	\$ 55,000,416	\$ -	\$ -	\$ 55,000,416
Trade payables (including related parties)	24,630,117	-	-	24,630,117
Other payables	33,937,995	-	-	33,937,995
Long-term borrowings	24,755	292,370	126,129	443,254
Total	<u>\$ 113,593,283</u>	<u>\$ 292,370</u>	<u>\$ 126,129</u>	<u>\$ 114,011,782</u>

As of December 31, 2015

Short-term borrowings	\$ 49,177,323	\$ -	\$ -	\$ 49,177,323
Trade payables (including related parties)	16,156,252	-	-	16,156,252
Other payables	31,531,189	-	-	31,531,189
Long-term payables	56,212	-	-	56,212
Total	<u>\$ 96,920,976</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 96,920,976</u>

Derivative financial instruments

	<u>Less than 1 year</u>	<u>1 to 5 years</u>	<u>Total</u>
<u>As of December 31, 2016</u>			
Net settlement			
Forward exchange contracts	<u>\$ (47,710)</u>	<u>\$ -</u>	<u>\$ (47,710)</u>
<u>As of December 31, 2015</u>			
Net settlement			
Forward exchange contracts	<u>\$ (33,996)</u>	<u>\$ -</u>	<u>\$ (33,996)</u>

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(3) Significant assets and liabilities denominated in foreign currencies

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

	December 31, 2016		
	Foreign Currency (thousand)	Exchange rate	NT\$ (thousand)
<u>Financial assets</u>			
Monetary item:			
USD	\$ 4,445,288	32.279	\$ 143,489,389
CNY	\$ 895	4.647	\$ 4,163
Non-monetary item:			
USD	\$ 896,434	32.279	\$ 28,935,990
CNY	\$ 1,548,281	4.647	\$ 7,194,350
<u>Financial liabilities</u>			
Monetary item:			
USD	\$ 3,511,854	32.279	\$ 113,359,152
CNY	\$ 112	4.647	\$ 520
	December 31, 2015		
	Foreign Currency (thousand)	Exchange rate	NT\$ (thousand)
<u>Financial assets</u>			
Monetary item:			
USD	\$ 2,288,875	33.066	\$ 75,683,947
CNY	\$ 27,334	5.092	\$ 139,187
Non-monetary item:			
USD	\$ 570,775	33.066	\$ 18,873,241
CNY	\$ 715,035	5.092	\$ 3,641,023
<u>Financial liabilities</u>			
Monetary item:			
USD	\$ 2,323,707	33.066	\$ 76,763,931
CNY	\$ 10,078	5.092	\$ 51,319

The Company's entities functional currency are various, and hence is not able to disclose the information of exchange gains and losses of monetary financial assets and liabilities by each significant assets and liabilities denominated in foreign currencies. The foreign exchange gain (loss) was NT\$597,572 thousand and NT\$(600,518) thousand for the years ended December 31, 2016 and 2015, respectively.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(4) Capital management

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

13. Segment Information

(1) General information

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

(2) Geographical information

A. Sales to other than consolidated entities

	For the years ended	
	December 31	
	2016	2015
Taiwan	\$ 20,378,650	\$ 11,008,186
Asia	252,271,020	192,618,001
Others	2,862,044	9,629,053
Total	\$ 275,511,714	\$ 213,255,240

Sales are presented by customers' country.

B. Non-current assets

	December 31,	December 31,
	2016	2015
Taiwan	\$ 84,847,639	\$ 92,826,109
Asia	23,725,364	16,124,567
Others	1,085,425	1,296,528
Total	\$ 109,658,428	\$ 110,247,204

(3) Major customers

There were no sales to customers representing over 10% of the Company's consolidated net sales for the years ended December 31, 2016 and 2015.

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

MEDIATEK INC.

**PARENT COMPANY ONLY
FINANCIAL STATEMENTS
WITH
REPORT OF INDEPENDENT ACCOUNTANTS**

**FOR THE YEARS ENDED
DECEMBER 31, 2016 AND 2015**

English Translation of a Report Originally Issued in Chinese

Independent Auditors' Report

To the Board of Directors and Shareholders
of MediaTek Inc.

Opinion

We have audited the accompanying parent company only balance sheets of MediaTek Inc. as of December 31, 2016 and 2015, and the related parent company only statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2016 and 2015, and notes to the parent company only financial statements, including the summary of significant accounting policies (together “the parent company only financial statements”).

In our opinion, the parent company only financial statements referred to above present fairly, in all material respects, the financial position of MediaTek Inc. as of December 31, 2016 and 2015, and its financial performance and cash flows for the years ended December 31, 2016 and 2015, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of 2016 parent company only financial statements. These matters were addressed in the context of our audit of the parent company only financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition

MediaTek Inc. and its subsidiaries recognized NT\$121,097,722 thousand as net sales, which includes sale of goods in the amount of NT\$134,144,526 thousand, other operating revenues in the amount of NT\$2,569,536 thousand, and sales returns and discounts in the amount of NT\$15,616,340 thousand for the year ended December 31, 2016. The sale of goods is sale of chips and due to large transaction volume, if the sale is recognized in an improper period, it can have significant impacts on the parent company only financial statements. As a result, we determined the matter to be a key audit matter.

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

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

Responsibilities of Management and Those Charged with Governance for the Parent Company Only Financial Statements

Management is responsible for the preparation and fair presentation of the parent company only financial statements in accordance with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and for such internal control as management determines is necessary to enable the preparation of parent company only financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Parent Company Only Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the parent company only financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of MediaTek Inc.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern of MediaTek Inc. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company only financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause MediaTek Inc. to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the parent company only financial statements, including the accompanying notes, and whether the parent company only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within MediaTek Inc. and its subsidiaries to express an opinion on the parent company only financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of 2016 parent company only financial statements and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Ernst & Young
CERTIFIED PUBLIC ACCOUNTANTS
March 22, 2017
Taipei, Taiwan
Republic of China

Notice to Readers

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

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

MEDIATEK INC.

PARENT COMPANY ONLY BALANCE SHEETS

As of December 31, 2016 and 2015

(Amounts in thousands of New Taiwan Dollars)

ASSETS	Notes	December 31, 2016	%	December 31, 2015	%
Current assets					
Cash and cash equivalents	4, 6(1)	\$ 60,244,970	20	\$ 74,921,175	26
Financial assets at fair value through profit or loss-current	4, 5, 6(2)	492,707	-	164,854	-
Available-for-sale financial assets-current	4, 5, 6(3)	2,198,973	1	1,827,325	1
Held-to-maturity financial assets-current	4, 6(4)	-	-	1,128,925	-
Debt instrument investments for which no active market exists-current	4, 6(5), 8	18,885	-	24,894	-
Trade receivables, net	4, 5, 6(6)	5,806,427	2	4,459,513	1
Trade receivables from related parties	4, 6(6), 7	339,275	-	108,570	-
Other receivables	6(6), 7	5,346,492	2	1,676,068	1
Current tax assets	4, 5, 6(24)	252,867	-	-	-
Inventories, net	4, 5, 6(7)	14,313,326	5	7,679,002	3
Prepayments	6(8)	298,982	-	1,151,231	-
Other current assets		1,310,071	-	1,271,251	-
Total current assets		90,622,975	30	94,412,808	32
Non-current assets					
Financial assets at fair value through profit or loss-noncurrent	4, 5, 6(2)	190,257	-	1,174,384	-
Available-for-sale financial assets-noncurrent	4, 5, 6(3)	3,577,034	1	4,285,729	2
Debt instrument investments for which no active market exists-noncurrent	4, 6(5), 8	22,964	-	9,705	-
Investments accounted for using the equity method	4, 6(9)	167,983,555	55	149,849,491	51
Property, plant and equipment	4, 6(10)	12,331,165	4	10,565,034	4
Intangible assets	4, 6(11), 6(12)	28,504,894	9	29,881,027	10
Deferred tax assets	4, 5, 6(24)	1,541,960	1	1,274,935	1
Refundable deposits		65,942	-	17,380	-
Total non-current assets		214,217,771	70	197,057,685	68
Total assets		\$ 304,840,746	100	\$ 291,470,493	100

The accompanying notes are an integral part of the parent company only financial statements.

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

MEDIATEK INC.

PARENT COMPANY ONLY BALANCE SHEETS

As of December 31, 2016 and 2015

(Amounts in thousands of New Taiwan Dollars)

LIABILITIES AND EQUITY		December 31, 2016	%	December 31, 2015	%
Current liabilities					
Short-term borrowings	6(13)	\$ 26,791,570	9	\$ 23,807,520	8
Financial liabilities at fair value through profit or loss-current	4, 5, 6(2)	45,098	-	31,948	-
Trade payables	7	9,479,635	3	5,760,468	2
Trade payables to related parties	6(14), 7	468,694	-	342,812	-
Other payables	4, 5, 6(24)	18,371,524	6	17,424,589	6
Current tax liabilities		1,500,602	1	605,742	-
Other current liabilities		1,142,161	-	1,016,089	1
Current portion of long-term liabilities		-	-	56,212	-
Total current liabilities		57,799,284	19	49,045,380	17
Non-current liabilities					
Net defined benefit liabilities-noncurrent	4, 6(15)	710,590	-	612,336	-
Deposits received	7	52,993	-	52,572	-
Deferred tax liabilities	4, 5, 6(24)	1,498,969	1	1,332,479	1
Total non-current liabilities		2,262,552	1	1,997,387	1
Total liabilities		60,061,836	20	51,042,767	18
Equity					
Share capital	6(16)				
Common stock		15,821,122	5	15,715,837	5
Capital surplus	4, 6(16), 6(17)	89,815,356	30	88,354,178	30
Retained earnings	6(16)	34,628,319	11	32,032,476	11
Legal reserve		92,324,282	30	96,476,287	33
Undistributed earnings	6(16)	12,245,801	4	7,904,918	3
Other equity	4, 6(16)	(55,970)	-	(55,970)	-
Treasury shares		244,778,910	80	240,427,726	82
Total equity					
Total liabilities and equity		\$ 304,840,746	100	\$ 291,470,493	100

The accompanying notes are an integral part of the parent company only financial statements.

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

MEDIATEK INC.

PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2016 and 2015

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

Description	Notes	2016	%	2015	%
Net sales	4, 5, 6(18), 7	\$ 121,097,722	100	\$ 99,245,700	100
Operating costs	4, 5, 6(7), 6(19), 7	(82,574,626)	(68)	(49,529,050)	(50)
Gross profit		38,523,096	32	49,716,650	50
Unrealized gross profit on sales		(246,645)	-	-	-
Gross profit, net		38,276,451	32	49,716,650	50
Operating expenses	6(19), 7				
Selling expenses		(6,157,624)	(5)	(5,538,497)	(6)
Administrative expenses		(2,571,665)	(2)	(3,186,860)	(3)
Research and development expenses		(28,858,577)	(24)	(29,543,967)	(30)
Total operating expenses		(37,587,866)	(31)	(38,269,324)	(39)
Operating income		688,585	1	11,447,326	11
Non-operating income and expenses					
Other income	4, 6(20), 7	1,302,131	1	1,304,871	1
Other gains and losses	4, 6(21)	518,991	-	(143,589)	-
Finance costs	6(22)	(324,622)	-	(293,986)	-
Share of profit of subsidiaries, associates, and joint ventures accounted for using the equity method	4	22,503,615	19	15,736,559	16
Total non-operating income and expenses		24,000,115	20	16,603,855	17
Net income before income tax		24,688,700	21	28,051,181	28
Income tax expense	4, 5, 6(24)	(988,102)	(1)	(2,092,752)	(2)
Net income		23,700,598	20	25,958,429	26
Other comprehensive income	4, 6(9), 6(15), 6(23), 6(24)				
Not to be reclassified to profit or loss in subsequent periods					
Remeasurements of the defined benefit plan		(85,908)	-	348,151	-
Share of other comprehensive income of subsidiaries, associates, and joint ventures accounted for using the equity method which not to be reclassified to profit or loss		17,288	-	(19,103)	-
Income tax relating to those items not to be reclassified to profit or loss		14,605	-	(59,186)	-
To be reclassified to profit or loss in subsequent periods					
Exchange differences resulting from translating the financial statements of foreign operations		(4,433,045)	(4)	2,385,906	3
Unrealized (losses) gains from available-for-sale financial assets		(274,816)	-	104,283	-
Share of other comprehensive income of subsidiaries, associates, and joint ventures accounted for using the equity method which may be reclassified to profit or loss		10,524,772	9	(1,191,384)	(1)
Other comprehensive income, net of tax		5,762,896	5	1,568,667	2
Total comprehensive income		\$ 29,463,494	25	\$ 27,527,096	28
Basic Earnings Per Share (in New Taiwan Dollars)	6(25)	\$ 15.16		\$ 16.60	
Diluted Earnings Per Share (in New Taiwan Dollars)	6(25)	\$ 15.13		\$ 16.57	

The accompanying notes are an integral part of the parent company only financial statements.

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2016 and 2015

(Amounts in thousands of New Taiwan Dollars)

Description	Share capital		Capital surplus	Retained earnings			Other equity			Treasury shares	Total equity
	Common stock	Capital collected in advance		Legal reserve	Special reserve	Undistributed earnings	Exchange differences resulting from translating the financial statements of foreign operations	Unrealized gains (losses) from available-for-sale financial assets	Other		
Balance as of January 1, 2015	\$ 15,714,455	\$ 467	\$ 88,047,914	\$ 27,392,687	\$ 895,749	\$ 108,566,733	\$ 4,218,292	\$ 2,387,821	\$ -	\$ (55,970)	\$ 247,168,148
Appropriation and distribution of 2014 earnings:	-	-	-	4,639,789	-	(4,639,789)	-	-	-	-	-
Legal reserve	-	-	-	-	-	895,749	-	-	-	-	-
Special reserve	-	-	-	-	(895,749)	-	-	-	-	-	-
Cash dividends	-	-	-	4,639,789	(895,749)	(38,318,737)	-	-	-	-	(34,574,697)
Total	-	-	-	-	-	-	-	-	-	-	(34,574,697)
Profit for the year ended December 31, 2015	-	-	-	-	-	25,958,429	-	-	-	-	25,958,429
Other comprehensive income for the year ended December 31, 2015	-	-	-	-	-	269,862	2,285,303	(986,498)	-	-	1,568,667
Total comprehensive income	-	-	-	-	-	26,228,291	2,285,303	(986,498)	-	-	27,527,096
Share-based payment transactions	1,382	(467)	37,279	-	-	-	-	-	-	-	38,194
Adjustments due to dividends that subsidiaries received from parent company	-	-	171,469	-	-	-	-	-	-	-	171,469
The differences between the fair value of the consideration paid or received from acquiring or disposing subsidiaries and the carrying amounts of the subsidiaries	-	-	(7,322)	-	-	-	-	-	-	-	(7,322)
Changes in ownership interests in subsidiaries	-	-	61,562	-	-	-	-	-	-	-	61,562
Changes in other capital surplus	-	-	43,276	-	-	-	-	-	-	-	43,276
Balance as of December 31, 2015	15,715,837	-	88,354,178	32,032,476	-	96,476,287	6,503,595	1,401,323	-	(55,970)	240,427,726
Appropriation and distribution of 2015 earnings:	-	-	-	2,595,843	-	(2,595,843)	-	-	-	-	-
Legal reserve	-	-	-	-	-	(17,287,421)	-	-	-	-	(17,287,421)
Cash dividends	-	-	-	2,595,843	-	(19,883,264)	-	-	-	-	(17,287,421)
Total	-	-	-	-	-	-	-	-	-	-	-
Profit for the year ended December 31, 2016	-	-	-	-	-	23,700,598	-	-	-	-	23,700,598
Other comprehensive income for the year ended December 31, 2016	-	-	-	-	-	(54,015)	(4,307,700)	10,124,611	-	-	5,762,896
Total comprehensive income	-	-	-	-	-	23,646,583	(4,307,700)	10,124,611	-	-	29,463,494
Share-based payment transactions	-	-	10,353	-	-	-	-	-	-	-	10,353
Adjustments due to dividends that subsidiaries received from parent company	-	-	85,735	-	-	-	-	-	-	-	85,735
The differences between the fair value of the consideration paid or received from acquiring or disposing subsidiaries and the carrying amounts of the subsidiaries	-	-	(142,643)	-	-	(7,915,324)	-	-	-	-	(8,057,967)
Changes in ownership interests in subsidiaries	-	-	(99,948)	-	-	-	-	-	-	-	(99,948)
Issuance of restricted stock for employees	1,052,851	-	1,660,064	-	-	-	-	-	(1,476,028)	-	289,321
Changes in associates and joint ventures accounted for using the equity method	-	-	(52,383)	-	-	-	-	-	-	-	(52,383)
Balance as of December 31, 2016	15,821,122	-	89,815,356	34,628,319	-	92,324,282	2,195,895	11,525,934	(1,476,028)	(55,970)	244,778,910

The accompanying notes are an integral part of the parent company only financial statements.

The actual distribution of employees' compensation amounted to NT\$309,130 thousand and NT\$351,232 thousand and remuneration to directors and supervisors amounted to NT\$41,733 thousand and NT\$47,416 thousand for the years ended 2016 and 2015, respectively, which was deducted from the statement of comprehensive income.

MEDIATEK INC.

PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS

For the years ended December 31, 2016 and 2015

(Amounts in thousands of New Taiwan Dollars)

Description	2016	2015
Cash flows from operating activities :		
Profit before tax from continuing operations	\$ 24,688,700	\$ 28,051,181
Adjustments for:		
The profit or loss items which did not affect cash flows:		
Depreciation	1,187,415	910,618
Amortization	1,612,673	1,422,332
Bad debt (reversal) provision	(182,279)	159,276
Losses on financial assets and liabilities at fair value through profit or loss	20,924	30,337
Interest expenses	324,622	293,986
Interest income	(850,451)	(1,149,150)
Dividend income	-	(22,465)
Share-based payment expenses	289,321	-
Share of profit of subsidiaries, associates, and joint ventures accounted for using the equity method	(22,503,615)	(15,736,559)
Losses on disposal of property, plant and equipment	38	2,828
Gains on disposal of investments	(19,651)	(9,985)
Impairment of financial assets	-	295,528
Unrealized gross profit on sales	246,645	-
Others	(221,624)	-
Changes in operating assets and liabilities:		
Financial assets at fair value through profit or loss	650,506	(247,576)
Trade receivables	(1,164,635)	(843,566)
Trade receivables from related parties	(230,705)	71,150
Other receivables	(2,307,629)	3,452,146
Inventories	(6,634,324)	225,600
Prepayments	852,249	144,511
Other current assets	(38,820)	(577,710)
Trade payables	3,719,167	(991,365)
Trade payables to related parties	125,882	(76,700)
Other payables	940,114	(10,491,881)
Other current liabilities	126,072	311,642
Long-term payables	(56,212)	(35,770)
Net defined benefit liabilities	12,346	10,557
Cash generated from operating activities:		
Interest received	713,772	1,125,401
Dividend received	13,489,338	8,643,402
Interest paid	(323,403)	(290,934)
Income tax paid	(432,040)	(5,215,923)
Net cash provided by operating activities	<u>14,034,396</u>	<u>9,460,911</u>
Cash flows from investing activities :		
Acquisition of available-for-sale financial assets	(393,243)	(1,917,013)
Proceeds from disposal of available-for-sale financial assets	470,928	316,448
Acquisition of debt instrument investments for which no active market exists	(7,250)	(24,390)
Proceeds from disposal of debt instrument investments for which no active market exists	-	297,924
Acquisition of held-to-maturity financial assets	-	(1,504,987)
Proceeds from redemption of held-to-maturity financial assets	1,125,000	375,000
Acquisition of investments accounted for using the equity method	(14,650,002)	(14,853,149)
Proceeds from capital return of investments accounted for using the equity method	2,280,000	-
Acquisition of property, plant and equipment	(3,050,023)	(2,311,429)
Proceeds from disposal of property, plant and equipment	83,907	288
(Increase) decrease in refundable deposits	(48,562)	12,259
Acquisition of intangible assets	(219,191)	(1,353,299)
Proceeds from disposal of intangible assets	785	-
Net cash used in investing activities	<u>(14,407,651)</u>	<u>(20,962,348)</u>
Cash flows from financing activities :		
Increase (decrease) in short-term borrowings	2,984,050	(6,483,170)
Increase in deposits received	421	2,198
Proceeds from exercise of employee stock options	-	30,132
Cash dividends	(17,287,421)	(34,574,697)
Net cash used in financing activities	<u>(14,302,950)</u>	<u>(41,025,537)</u>
Net decrease in cash and cash equivalents	(14,676,205)	(52,526,974)
Cash and cash equivalents at the beginning of the year	74,921,175	127,448,149
Cash and cash equivalents at the end of the year	<u>\$ 60,244,970</u>	<u>\$ 74,921,175</u>

The accompanying notes are an integral part of the parent company only financial statements.

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS

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

1. Organization and Operation

As officially approved, MediaTek Inc. (“the Company”) 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 parent company only financial statements were authorized for issue in accordance with a resolution of the Board of Directors on March 22, 2017.

3. Newly Issued or Revised Standards and Interpretations

(1) International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations developed by the International Financial Reporting Interpretation Committee (IFRIC) and Interpretations of IASs (SIC) (collectively, “TIFRS”) issued, revised or amended, which are recognized and not applied by Financial Supervisory Commission (“FSC”), but not yet adopted by the Company 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
IAS 36	“Impairment of Assets” (Amendment)	January 1, 2014
IFRIC 21	“Levies”	January 1, 2014
IAS 39	“Novation of Derivatives and Continuation of Hedge Accounting”	January 1, 2014
IAS 19	“Employee Benefits” (Amendment) - Defined benefit plans: employee contributions	July 1, 2014
Improvements to International Financial Reporting Standards (2010-2012 cycle) :		
IFRS 2	“Share-based Payment”	July 1, 2014
IFRS 3	“Business Combinations”	July 1, 2014
IFRS 8	“Operating Segments”	July 1, 2014
IFRS 13	“Fair Value Measurement”	July 1, 2014
IAS 16	“Property, Plant and Equipment”	July 1, 2014
(To be continued)		

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

(Continued)

Standards or Interpretations Numbers	The Projects of Standards or Interpretations	Effective Dates
IAS 24	“Related Party Disclosures”	July 1, 2014
IAS 38	“Intangible Assets”	July 1, 2014
Improvements to International Financial Reporting Standards (2011-2013 cycle) :		
IFRS 1	“First-time Adoption of International Financial Reporting Standards”	July 1, 2014
IFRS 3	“Business Combinations”	July 1, 2014
IFRS 13	“Fair Value Measurement”	July 1, 2014
IAS 40	“Investment Property”	July 1, 2014
IFRS 14	“Regulatory Deferral Accounts”	January 1, 2016
IFRS 11	“Joint Arrangements”- Joint operation (Amendment)	January 1, 2016
IAS 16 and IAS 38	“Property, Plant and Equipment” and “Intangible Assets” (Amendment) - Clarification of Acceptable Methods of Depreciation and Amortization	January 1, 2016
IAS 16 and IAS 41	“Agriculture: Bearer Plants” (Amendment)	January 1, 2016
IAS 27	“Separate Financial Statements” - Equity Method in Separate Financial Statements (Amendment)	January 1, 2016
Improvements to International Financial Reporting Standards (2012-2014 cycle) :		
IFRS 5	“Non-current Assets Held for Sale and Discontinued Operations”	January 1, 2016
IFRS 7	“Financial Instruments : Disclosures”	January 1, 2016
IAS 19	“Employee Benefits”	January 1, 2016
IAS 34	“Interim Financial Reporting”	January 1, 2016
IAS 1	“Presentation of Financial Statements”- Disclosure Initiative	January 1, 2016
IFRS 10, IFRS 12 and IAS 28	“Investment Entities”- Applying the Consolidation Exception	January 1, 2016

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

A. IAS 36 “Impairment of Assets” (Amendment)

The amendments relate to the amendment issued in May 2011 and requires entities to disclose the recoverable amount of an asset (including goodwill) or a cash-generating unit when an impairment loss has been recognized or reversed during the period. The amendments also require detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognized or reversed, including valuation techniques used, level of fair value hierarchy of assets and key assumptions used in measurement.

B. Improvements to International Financial Reporting Standards (2011-2013 cycle):

IFRS 13 “Fair Value Measurement”

The amendments clarify that paragraph 52 of IFRS 13 includes a scope exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis. The objective of the amendments is to clarify that this portfolio exception applies to all contracts within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” or IFRS 9 “Financial Instruments”, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32 “Financial Instruments: Presentation”.

C. Disclosure Initiative- Amendment to IAS 1 “Presentation of Financial Statements”:

The amendments contain (1) clarifying that an entity must not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. The amendments reemphasize that, when a standard requires a specific disclosure, the information must be assessed to determine whether it is material (2) clarifying that specific line items in the statement(s) of profit or loss and other comprehensive income (OCI) and the statement of financial position may be disaggregated, and how an entity shall present additional subtotals, (3) clarifying that entities have flexibility as to the order in which they present the notes to financial statements, but also emphasize that understandability and comparability should be considered by an entity when deciding on that order, (4) removing the examples of the income taxes accounting policy and the foreign currency accounting policy, as these were considered unhelpful in illustrating what significant accounting policies could be, and (5) clarifying that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, classified between those items that will or will not be subsequently reclassified to profit or loss.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

The abovementioned standards and interpretations issued by International Accounting Standards Board (“IASB”) and recognized by FSC so that they are applicable for annual periods beginning on or after January 1, 2017. Apart from item A to C which would have the potential impact on the Company, the remaining standards and interpretations have no material impact on the Company.

- (2) 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 15	“Revenue from Contracts with Customers”	January 1, 2018
IFRS 9	“Financial Instruments”	January 1, 2018
IFRS 10 and IAS 28	“Consolidated Financial Statements” and “Investments in Associates and Joint Ventures” (Amendment) - Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures	Postponed indefinitely
IFRS 16	“Leases”	January 1, 2019
IAS 12	“Income Taxes”- Recognition of Deferred Tax Assets for Unrealised Losses	January 1, 2017
IAS 7	“Statement of Cash Flows” (Amendment) - Disclosure Initiative	January 1, 2017
IFRS 15	“Revenue from Contracts with Customers” (Clarification)	January 1, 2018
IFRS 2	“Shared-Based Payment” (Amendment)	January 1, 2018
IFRS 4	“Insurance Contracts” (Amendment)	Not earlier than 2020
IAS 40	“Investment Property” (Amendment)	January 1, 2018
Improvements to International Financial Reporting Standards (2014-2016 cycle) :		
IFRS 1	“First-time Adoption of International Financial Reporting Standards”	January 1, 2018
IFRS 12	“Disclosure of Interests in Other Entities”	January 1, 2017
IAS 28	“Investments in Associates and Joint Ventures”	January 1, 2018
IFRIC 22	“Foreign Currency Transactions and Advance Consideration”	January 1, 2018

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

A. IFRS 15 “Revenue from Contracts with Customers”

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

Step 1 : Identify the contracts with a customer;

Step 2 : Identify the performance obligations in the contract;

Step 3 : Determine the transaction price;

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

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

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

B. IFRS 9 “Financial Instruments”

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

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

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

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

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

C. IFRS 16 “Leases”

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

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

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

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

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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

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

IAS 28 “Investments in Associates and Joint Ventures”

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

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 still currently determining the potential impact of the standards and interpretations listed under A-F, it is not practicable to estimate their impact on the Company at this point in time. All other standards and interpretations have no material impact on the Company.

4. Summary of Significant Accounting Policies

Statement of Compliance

The parent company only financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (“the Regulations”).

Basis of Preparation

According to article 21 of the Regulations, the profit or loss and other comprehensive income presented in the parent company only financial reports will be the same as the allocations of profit or loss and of other comprehensive income attributable to owners of the parent presented in the financial reports prepared on a consolidated basis, and the owners' equity presented in the parent company only financial reports will be the same as the equity attributable to owners of the parent presented in the financial reports prepared on a consolidated basis. Therefore, the investments in subsidiaries will be disclosed under “Investments accounted for using the equity method” in the parent company only financial report and change in value will be adjusted.

The parent company only financial statements have been prepared on a historical cost basis, except for financial instruments that have been measured at fair value. The parent company only financial statements are expressed in thousands of New Taiwan Dollars (“NT\$”) unless otherwise stated.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

Foreign currency transactions

The Company's parent company only financial statements are presented in NT\$.

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

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

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

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

Translation of financial statements in foreign currency

Each foreign operation of the Company determines its function currency upon its primary economic environment and items included in the financial statements of each operation are measured using that functional currency. The assets and liabilities of foreign operations are translated into New Taiwan Dollars at the closing rate of exchange prevailing at the reporting date and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized. On the partial disposal of foreign operations that result in a loss of control, loss of significant influence or joint control but retain partial equity is considering as disposal.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

On the partial disposal of a subsidiary that includes a foreign operation that does not result in a loss of control, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is adjustment in “investments accounted for using the equity method”. In partial disposal of an associate or jointly controlled entity that includes a foreign operation that does not result in a loss of significant influence or joint control, only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is reclassified to profit or loss.

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

Current and non-current distinction

An asset is classified as current when:

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

All other assets are classified as non-current.

A liability is classified as current when:

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

All other liabilities are classified as non-current.

Cash and cash equivalents

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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

Financial instruments

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

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

A. Financial assets

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

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

a. Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if:

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

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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

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

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

b. Available-for-sale financial assets

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

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

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

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.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

d. Loans and receivables

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

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

e. Impairment of financial assets

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

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

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.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

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

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

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

f. Derecognition of financial assets

A financial asset is derecognized when:

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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

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

B. Financial liabilities and equity

a. Classification between liabilities or equity

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

b. Equity instruments

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

c. Financial liabilities

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

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

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

A financial liability is classified as held for trading if:

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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

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

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

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

(b) Financial liabilities at amortized cost

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

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

(c) Derecognition of financial liabilities

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

C. Offsetting of financial instruments

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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

Derivative financial instrument

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

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

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

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

Inventories

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

Investments accounted for using the equity method

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

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

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

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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

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

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

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

Property, plant and equipment

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

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

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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

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

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

Leases

A. The Company as a lessee

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

B. The Company as a lessor

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

Intangible assets

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

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

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

Patents	Software	IPs and others
2~7 years	2~5 years	2~7 years

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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

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

Impairment of non-financial assets

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

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

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

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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

Treasury shares

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

Revenue recognition

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

A. Sale of goods

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

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

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

B. Interest income

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

C. Dividends

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

Post-employment benefits

All regular employees of the Company are entitled to a pension plan that is managed by an independently administered pension fund committee. Fund assets are deposited under the committee's name in the specific bank account and hence, not associated with the Company. Therefore, fund assets are not included in the Company's parent company only financial statements.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

For the defined contribution plan, the Company will make a monthly contribution of no less than 6% of the monthly wages of the employees subject to the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due.

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

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

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

Share-based payment transactions

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

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

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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

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

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

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

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

Income taxes

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

A. Current income tax

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

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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

B. Deferred tax

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

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

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

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

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

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

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

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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

Business combinations and goodwill

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

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

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

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

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

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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

5. Significant Accounting Judgments, Estimates and Assumptions

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

Estimates and assumptions

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

A. Fair value of financial instruments

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

B. Valuation of inventory

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

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

C. Income tax

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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

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

D. Revenue recognition - sales returns and discounts

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

6. Contents of Significant Accounts

(1) Cash and cash equivalents

	December 31, 2016	December 31, 2015
Checking and savings accounts	\$ 4,270,964	\$ 10,046,897
Time deposits	55,005,636	64,874,278
Cash equivalents - repurchase agreements	968,370	-
Total	<u>\$ 60,244,970</u>	<u>\$ 74,921,175</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

	December 31, 2016	December 31, 2015
<u>Current</u>		
<u>Held for trading financial assets</u>		
Forward exchange contracts	\$ 1,850	\$ 232
<u>Financial assets designated upon initial recognition at fair value through profit or loss</u>		
Credit-linked deposits	490,857	164,622
Total	<u>\$ 492,707</u>	<u>\$ 164,854</u>

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

	December 31, 2016	December 31, 2015
<u>Held for trading financial liabilities</u>		
Forward exchange contracts	\$ 45,098	\$ 31,948
<u>Noncurrent</u>		
<u>Financial assets designated upon initial recognition at fair value through profit or loss</u>		
Credit-linked deposits	\$ 190,257	\$ 1,174,384

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

(3) Available-for-sale financial assets

	December 31, 2016	December 31, 2015
<u>Current</u>		
Funds	\$ 1,293,307	\$ 1,339,333
Bonds	500,393	-
Stocks	381,959	453,050
Depository receipts	23,314	34,942
Subtotal	2,198,973	1,827,325
<u>Noncurrent</u>		
Funds	2,819,404	3,025,114
Bonds	757,630	1,260,615
Subtotal	3,577,034	4,285,729
Total	\$ 5,776,007	\$ 6,113,054

The Company assessed and concluded its available-for-sale financial assets were partially impaired, and recorded an impairment loss of NT\$295,528 thousand for the year ended December 31, 2015.

Available-for-sale financial assets were not pledged.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

(4) Held-to-maturity financial assets

	December 31, 2016	December 31, 2015
<u>Current</u>		
Bonds	\$ -	\$ 1,128,925

Held-to-maturity financial assets were not pledged.

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

	December 31, 2016	December 31, 2015
<u>Current</u>		
Time deposits	\$ 18,885	\$ 24,894
<u>Noncurrent</u>		
Time deposits	22,964	9,705
Total	\$ 41,849	\$ 34,599

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

(6) Trade receivables and trade receivables from related parties

	December 31, 2016	December 31, 2015
Trade receivables	\$ 9,452,756	\$ 7,249,706
Less: allowance for doubtful debts	(64,373)	(246,652)
Less: allowance for sales returns and discounts	(3,581,956)	(2,543,541)
Subtotal	5,806,427	4,459,513
Trade receivables from related parties	339,275	108,570
Less: allowance for doubtful debts	-	-
Subtotal	339,275	108,570
Total	\$ 6,145,702	\$ 4,568,083

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

Trade receivables are generally on 45-60 day terms. The movements in the provision for impairment of trade receivables and trade receivables from related parties are as follows (please refer to Note 12 for credit risk disclosure):

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

	Individually impaired	Collectively impaired	Total
As of January 1, 2016	\$ -	\$ 246,652	\$ 246,652
Reversal for the current period	-	(182,279)	(182,279)
As of December 31, 2016	\$ -	\$ 64,373	\$ 64,373

	Individually impaired	Collectively impaired	Total
As of January 1, 2015	\$ -	\$ 87,376	\$ 87,376
Charge for the current period	-	159,276	159,276
As of December 31, 2015	\$ -	\$ 246,652	\$ 246,652

Aging analysis of trade receivables and trade receivable from related parties 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, 2016	\$ 5,679,824	\$ 465,878	\$ -	\$ 6,145,702
December 31, 2015	\$ 3,618,042	\$ 950,041	\$ -	\$ 4,568,083

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\$914,276 thousand, and NT\$279,501 thousand as of December 31, 2016 and 2015, respectively.

As of December 31, 2016 and 2015, trade receivables derecognized were as follows:

A. As of December 31, 2016:

The Factor (Transferee)	Interest rate	Trade receivables derecognized (US\$'000)	Cash withdrawn (US\$'000)	Unutilized (US\$'000)	Credit line (US\$'000)
Taishin International Bank	-	\$ 20,445	\$ -	\$ 20,445	\$ 107,000
ING Bank	-	-	-	-	75,000
BNP Paribas	-	7,950	-	7,950	75,000
HSBC	-	66	-	66	500
TC Bank	-	112	-	112	300
Total		\$ 28,573	\$ -	\$ 28,573	\$ 257,800

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

B. As of December 31, 2015:

The Factor (Transferee)	Interest rate	Trade receivables	Cash	Unutilized (US\$'000)	Credit line (US\$'000)
		derecognized (US\$'000)	withdrawn (US\$'000)		
Taishin International Bank	-	\$ 8,357	\$ -	\$ 8,357	\$ 124,000
ING Bank	-	-	-	-	100,000
BNP Paribas	-	-	-	-	75,000
HSBC	-	-	-	-	1,000
TC Bank	-	96	-	96	750
Total		\$ 8,453	\$ -	\$ 8,453	\$ 300,750

(7) Inventories

	December 31, 2016	December 31, 2015
Raw materials	\$ 226,872	\$ 533
Work in progress	8,171,328	3,868,102
Finished goods	5,915,126	3,810,367
Net amount	\$ 14,313,326	\$ 7,679,002

For the years ended December 31, 2016 and 2015, the cost of inventories recognized in expenses amounted to NT\$82,574,626 thousand and NT\$49,529,050 thousand, including the write-down of inventories of NT\$1,032,705 thousand for the year ended December 31, 2016 and the reversal gain of the write-down of inventories of NT\$1,695,510 thousand for the year ended December 31, 2015 because of circumstances that caused the net realizable value of inventory to be lower than its cost no longer existed.

Inventories were not pledged.

(8) Prepayments

	December 31, 2016	December 31, 2015
Prepaid expenses	\$ 192,608	\$ 952,855
Others	106,374	198,376
Total	\$ 298,982	\$ 1,151,231

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

(9) Investments accounted for using the equity method

Investees	December 31, 2016		December 31, 2015	
	Carrying amount	Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)
Subsidiaries:				
MediaTek Investment Singapore Pte. Ltd.	\$ 75,501,040	100	\$ 65,987,838	100
MStar Semiconductor, Inc.	46,830,803	100	44,427,162	100
Hsu-Ta Investment Corp.	27,184,670	100	23,494,799	100
Hsu-Chuang Investment Corp.	293,084	100	246,489	100
HFI Innovation Inc.	369,550	100	-	-
MediaTek Singapore Pte. Ltd.	17,761,587	100	15,649,181	100
T-Rich Technology (Cayman) Corp.	42,821	100	44,022	100
Total	<u>\$ 167,983,555</u>		<u>\$ 149,849,491</u>	

The Company increased its investment in Hsu-Ta Investment Corp. in NT\$14,600,000 thousand and NT\$14,200,000 thousand in October 2015 and April 2016, respectively, and Hsu-Ta Investment Corp. returned NT\$3,500,000 thousand for capital reduction in November 2016, which NT\$1,220,000 thousand was not yet received and recognized as other receivables.

The Company invested NT\$250,000 thousand to establish Hsu-Chuang Investment Corp. in January 2015 and increased its investment in Hsu-Chuang Investment Corp. in NT\$50,000 thousand in February 2016.

The Company invested NT\$2,000 thousand to establish HFI Innovation Inc. in February 2016 and increased its investment in HFI Innovation Inc. by cash in NT\$398,000 thousand and by the contribution of IPs in the amount of NT\$221,624 thousand in March and December 2016, respectively.

Investments in subsidiaries were not pledged.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

(10) Property, plant and equipment	Cost:							Construction in progress and equipment awaiting examination	Total
	Land	Buildings and facilities	Machinery equipment	Computer and telecommunication equipment	Testing equipment	Miscellaneous equipment			
As of January 1, 2016	\$ 1,459,149	\$ 7,642,537	\$ 11,759	\$ 2,096,671	\$ 3,766,200	\$ 182,785	\$ 730,242	\$ 15,889,343	
Additions-acquired separately	-	1,303,125	-	837,515	530,587	10,300	374,098	3,055,625	
Disposals	-	-	(235)	(207,218)	(296,898)	(12,839)	-	(517,190)	
Transfers	-	320,196	-	2,732	277,703	20,729	(639,494)	(18,134)	
As of December 31, 2016	\$ 1,459,149	\$ 9,265,858	\$ 11,524	\$ 2,729,700	\$ 4,277,592	\$ 200,975	\$ 464,846	\$ 18,409,644	
As of January 1, 2015	\$ 1,439,948	\$ 7,144,963	\$ 11,591	\$ 1,354,613	\$ 3,074,639	\$ 171,559	\$ 732,368	\$ 13,929,681	
Additions-acquired separately	19,201	57,859	168	829,419	600,450	7,208	795,857	2,310,162	
Disposals	-	-	-	(110,024)	(230,032)	(1,982)	-	(342,038)	
Transfers	-	439,715	-	22,663	321,143	6,000	(797,983)	(8,462)	
As of December 31, 2015	\$ 1,459,149	\$ 7,642,537	\$ 11,759	\$ 2,096,671	\$ 3,766,200	\$ 182,785	\$ 730,242	\$ 15,889,343	

MEDIATEK INC.

NOTES TO 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, 2016	\$ -	\$ 2,081,215	\$ 8,665	\$ 1,034,998	\$ 2,035,556	\$ 163,875	\$ -	\$ 5,324,309
Depreciation	-	225,101	815	484,146	469,622	7,731	-	1,187,415
Disposals	-	-	(235)	(204,995)	(219,476)	(8,539)	-	(433,245)
As of December 31, 2016	\$ -	\$ 2,306,316	\$ 9,245	\$ 1,314,149	\$ 2,285,702	\$ 163,067	\$ -	\$ 6,078,479
As of January 1, 2015	\$ -	\$ 1,856,844	\$ 7,862	\$ 843,838	\$ 1,893,479	\$ 150,590	\$ -	\$ 4,752,613
Depreciation	-	224,371	803	300,606	369,571	15,267	-	910,618
Disposals	-	-	-	(109,446)	(227,494)	(1,982)	-	(338,922)
As of December 31, 2015	\$ -	\$ 2,081,215	\$ 8,665	\$ 1,034,998	\$ 2,035,556	\$ 163,875	\$ -	\$ 5,324,309
Net carrying amount as of:								
December 31, 2016	\$ 1,459,149	\$ 6,959,542	\$ 2,279	\$ 1,415,551	\$ 1,991,890	\$ 37,908	\$ 464,846	\$ 12,331,165
December 31, 2015	\$ 1,459,149	\$ 5,561,322	\$ 3,094	\$ 1,061,673	\$ 1,730,644	\$ 18,910	\$ 730,242	\$ 10,565,034

Property, plant and equipment were not pledged.

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

(11) Intangible assets

	Software	Patents, IPs and others	Goodwill	Total
Cost:				
As of January 1, 2016	\$ 507,433	\$ 4,054,986	\$ 27,712,833	\$ 32,275,252
Additions-acquired separately	142,204	76,987	-	219,191
Disposals	(5,788)	-	-	(5,788)
Transfers	-	18,134	-	18,134
As of December 31, 2016	<u>\$ 643,849</u>	<u>\$ 4,150,107</u>	<u>\$ 27,712,833</u>	<u>\$ 32,506,789</u>
As of January 1, 2015	\$ 373,170	\$ 1,626,814	\$ 27,712,833	\$ 29,712,817
Additions-acquired separately	125,801	2,428,172	-	2,553,973
Transfers	8,462	-	-	8,462
As of December 31, 2015	<u>\$ 507,433</u>	<u>\$ 4,054,986</u>	<u>\$ 27,712,833</u>	<u>\$ 32,275,252</u>
Amortization and impairment:				
As of January 1, 2016	\$ 358,461	\$ 2,035,764	\$ -	\$ 2,394,225
Amortization	162,084	1,450,589	-	1,612,673
Disposals	(5,003)	-	-	(5,003)
As of December 31, 2016	<u>\$ 515,542</u>	<u>\$ 3,486,353</u>	<u>\$ -</u>	<u>\$ 4,001,895</u>
As of January 1, 2015	\$ 263,786	\$ 708,107	\$ -	\$ 971,893
Amortization	94,675	1,327,657	-	1,422,332
As of December 31, 2015	<u>\$ 358,461</u>	<u>\$ 2,035,764</u>	<u>\$ -</u>	<u>\$ 2,394,225</u>
Net carrying amount as of:				
December 31, 2016	<u>\$ 128,307</u>	<u>\$ 663,754</u>	<u>\$ 27,712,833</u>	<u>\$ 28,504,894</u>
December 31, 2015	<u>\$ 148,972</u>	<u>\$ 2,019,222</u>	<u>\$ 27,712,833</u>	<u>\$ 29,881,027</u>

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

(12) Impairment testing of goodwill

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

The recoverable amount of the cash-generating unit is determined based on the value-in-use calculated using cash flow projections discounted by the pre-tax discount rate from financial budgets approved by management covering a five-year period. The projected cash flows reflect the change in demand for products and services. As a result of the analysis, the Company did not identify any impairment for the goodwill of NT\$27,712,833 thousand.

Key assumptions used in value-in-use calculations

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

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

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

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

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

Sensitivity to changes in assumptions

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

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

(13) Short-term borrowings

	December 31, 2016	December 31, 2015
Unsecured bank loans	\$ 26,791,570	\$ 23,807,520
Interest rates	1.06-1.59%	0.70-0.85%

(14) Other payables

	December 31, 2016	December 31, 2015
Accrued salaries and bonuses	\$ 11,301,161	\$ 10,994,492
Accrued royalties	1,516,401	1,145,550
Other payable from related parties	-	406,046
Others	5,553,962	4,878,501
Total	\$ 18,371,524	\$ 17,424,589

(15) Post-employment benefits

Defined contribution plan

The Company adopts a defined contribution plan in accordance with the Labor Pension Act of the R.O.C. The Company has made monthly contributions of 6% of each individual employee's salaries or wages to employees' pension accounts.

Pension expenses under the defined contribution plan for the years ended December 31, 2016 and 2015 were NT\$506,193 thousand and NT\$490,079 thousand, respectively.

Defined benefit plan

The Company adopts 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, the Company contributes 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.

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

The Ministry of Labor is in charge of establishing and implementing the fund utilization plan in accordance with the regulations for revenues, expenditures, safeguard and utilization of the labor retirement fund. The pension fund is invested in-house or under mandate, based on a passive-aggressive investment strategy for long-term profitability. The Ministry of Labor establishes checks and risk management mechanism based on the assessment of risk factors including market risk, credit risk and liquidity risk, in order to maintain adequate manager flexibility to achieve targeted return without over-exposure of risk. With regard to utilization of the pension fund, the minimum earnings in the annual distributions on the final financial statement shall not be less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Treasury funds can be used to cover the deficits after the approval of the competent authority. As the Company does not participate in the operation and management of the pension fund, no disclosure on the fair value of the plan assets categorized in different classes could be made in accordance with IAS 19. The Company expects to contribute NT\$2,305 thousand to its defined benefit plan during the 12 months beginning after December 31, 2016.

The weighted average duration of the defined benefit obligation was both 21 years as of December 31, 2016 and 2015.

Pension costs recognized in profit or loss are as follows:

	For the years ended	
	December 31	
	2016	2015
Current service cost	\$ 2,404	\$ 2,659
Net interest on the net defined benefit liabilities	12,247	21,373
Total	\$ 14,651	\$ 24,032

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

	December 31,	December 31,
	2016	2015
Defined benefit obligation	\$ 791,464	\$ 690,183
Plan assets at fair value	(80,874)	(77,847)
Net defined benefit liabilities	\$ 710,590	\$ 612,336

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

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

	Defined benefit obligation	Plan assets at fair value	Net defined benefit liabilities (assets)
As of January 1, 2016	\$ 690,183	\$ (77,847)	\$ 612,336
Current service cost	2,404	-	2,404
Interest expenses (income)	13,804	(1,557)	12,247
Subtotal	16,208	(1,557)	14,651
Remeasurements of the defined benefit liabilities/assets:			
Actuarial gains and losses arising from changes in demographic assumptions	(23,647)	-	(23,647)
Actuarial gains and losses arising from changes in financial assumptions	158,845	-	158,845
Experience adjustments	(50,125)	-	(50,125)
Remeasurements of the defined benefit assets	-	835	835
Subtotal	85,073	835	85,908
Contributions by employer	-	(2,305)	(2,305)
As of December 31, 2016	\$ 791,464	\$ (80,874)	\$ 710,590
	Defined benefit obligation	Plan assets at fair value	Net defined benefit liabilities (assets)
As of January 1, 2015	\$ 1,023,110	\$ (73,180)	\$ 949,930
Current service cost	2,659	-	2,659
Interest expenses (income)	23,020	(1,647)	21,373
Subtotal	25,679	(1,647)	24,032
Remeasurements of the defined benefit liabilities/assets:			
Actuarial gains and losses arising from changes in demographic assumptions	(3,516)	-	(3,516)
Actuarial gains and losses arising from changes in financial assumptions	(259,735)	-	(259,735)
Experience adjustments	(84,597)	-	(84,597)
Remeasurements of the defined benefit assets	-	(303)	(303)
Subtotal	(347,848)	(303)	(348,151)
Payment of benefit obligation	(10,758)	-	(10,758)
Contributions by employer	-	(2,717)	(2,717)
As of December 31, 2015	\$ 690,183	\$ (77,847)	\$ 612,336

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

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

	December 31, 2016	December 31, 2015
Discount rate	1.80%	2.00%
Expected rate of salary increases	3.60%	2.75%

Sensitivity analysis for significant assumption are shown below:

	For the years ended December 31			
	2016		2015	
	Defined benefit obligation increase	Defined benefit obligation decrease	Defined benefit obligation increase	Defined benefit obligation decrease
Discount rate increase 0.5%	\$ -	\$ (78,356)	\$ -	\$ (69,634)
Discount rate decrease 0.5%	87,838	-	78,392	-
Rate of future salary increase 0.5%	85,787	-	77,386	-
Rate of future salary decrease 0.5%	-	(77,422)	-	(69,474)

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

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

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

The Company's authorized capital as of December 31, 2016 and 2015 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. The Company's issued capital was NT\$15,821,122 thousand and NT\$15,715,837 thousand, divided into 1,582,112,191 shares and 1,571,583,686 shares as of December 31, 2016 and 2015, respectively. Each share has one voting right and a right to receive dividends.

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

The Company issued 138,142 new shares during the year ended December 31, 2015, at par value of NT\$10 for employee stock options exercised.

On June 24, 2016, the general shareholders' meeting approved to issue restricted stocks for employees. 10,528,505 shares of restricted stocks for employees were issued in 2016. Relevant regulators' approvals have been obtained and related registration processes have been completed.

B. Capital surplus

	December 31, 2016	December 31, 2015
Additional paid-in capital	\$ 85,867,533	\$ 85,867,533
Treasury share transactions	1,455,706	1,369,971
The differences between the fair value of the consideration paid or received from acquiring or disposing subsidiaries and the carrying amounts of the subsidiaries	-	142,643
Changes in ownership interests in subsidiaries	176,894	276,842
Donated assets	1,261	1,261
From share of changes in net assets of associates	29,475	81,858
Employee stock options	513,409	503,056
Restricted stocks for employees	1,660,064	-
Others	111,014	111,014
Total	<u>\$ 89,815,356</u>	<u>\$ 88,354,178</u>

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

C. Treasury shares

As of December 31, 2016 and 2015, 7,794,085 shares of the Company's common shares amounting to NT\$55,970 thousand were held by the subsidiary, MediaTek Capital Corp. These shares held by MediaTek Capital Corp. were acquired for the purpose of financing before the amendment of the Company Act on November 12, 2001.

As of December 31, 2016 and 2015, the Company did not hold any other treasury shares.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

D. Retained earnings and dividend policy

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

- a. Reserve for tax payments;
- b. Offset 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. Remuneration for directors and supervisors, at a maximum of 0.5% of remaining net profits after deducting item (a) to (d). The remuneration for directors and supervisors shall be paid in cash;
- f. The remaining net profits and the retained earnings from previous years will be allocated as employees' bonus and shareholders' dividend. Except for setting aside certain portion of it for distribution in the future, the guideline for distribution is that the amount of employees' bonus shall not be lower than 1% of the sum of employees' bonus and shareholders' dividends. Employees' bonus may be paid in cash or in stock. When the bonus is made in the form of stock, the qualified employees may include employees from affiliates companies who meet certain qualification. The board of directors is authorized to determine the qualification of such employees.

However, according to the addition of Article 235-1 of the Company Act announced on May 20, 2015, the Company shall provide a fixed amount or percentage of profit for the current year to be distributed as "employees' compensation." The Company's shareholders' meeting held on June 24, 2016 passed the resolution of amending the Articles of Incorporation, according to the revised Articles of Incorporations, 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.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

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

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

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

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

Details of the 2015 and 2014 earnings distribution and dividends per share were resolved by general shareholders' meeting on June 24, 2016 and June 12, 2015, respectively, are as follows:

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

	Appropriation of earnings		Dividends per share (NT\$)	
	2015	2014	2015	2014
Legal reserve	\$ 2,595,843	\$ 4,639,789	-	-
Special reserve reversal	-	(895,749)	-	-
Cash dividends-common stock	17,287,421	34,574,697	\$ 11.00	\$ 22.00
Total	<u>\$ 19,883,264</u>	<u>\$ 38,318,737</u>		

Please refer to Note 6. (19) for relevant information on estimation basis and recognized amounts of employees' compensations and remunerations to directors and supervisors.

(17) 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.

In December 2007, July 2009, May 2010, August 2011, August 2012 and August 2013, the Company 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 the Company or any of its domestic or foreign subsidiaries, in which the Company'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 the Company's common shares listed on the Taiwan Stock Exchange Corporation ("TWSE") on the grant date.

Detail information relevant to the share-based payment plan as of December 31, 2016 is as follows:

Date of grant	Total number of options granted	Total number of options outstanding	Shares available for option holders	Exercise price (NT\$) (Note)
2008.03.31	1,134,119	239,755	239,755	\$ 355.6
2008.08.28	1,640,285	419,656	419,656	342.2
2009.08.18	1,382,630	502,681	502,681	426.6
2010.08.27	1,605,757	637,183	637,183	402.1
2010.11.04	65,839	8,134	8,134	374.5
2011.08.24	2,109,871	1,105,121	1,105,121	275.6
2012.08.14	1,346,795	884,912	884,912	284.9
2013.08.22	1,436,343	1,121,805	675,208	365.6

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

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

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

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

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

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

Employee Stock Option	For the years ended			
	December 31			
	2016		2015	
	Options	Weighted-average Exercise Price per Share (NT\$)	Options	Weighted-average Exercise Price per Share (NT\$)
	(Unit)		(Unit)	
Outstanding at beginning of year	5,457,731	\$ 341.8	5,754,998	\$ 341.4
Granted	-	-	-	-
Exercised	-	-	(91,442)	329.5
Forfeited (Expired)	(538,484)	341.2	(205,825)	337.0
Outstanding at end of year	<u>4,919,247</u>	339.4	<u>5,457,731</u>	341.8
Exercisable at end of year	<u>4,472,650</u>		<u>4,220,220</u>	
Weighted-average fair value of options granted during the year (in NT\$)	<u>\$ -</u>		<u>\$ -</u>	

The weighted average share price at the date of exercise of those options was NT\$481.7 for the year ended December 31, 2015.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

The information on the outstanding share-based payment plan as of December 31, 2016 and 2015 is as follows:

Date of grant	Range of Exercise Price (NT\$)	December 31, 2016		December 31, 2015	
		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	\$ 342.2~355.6	-	\$ 347.1	-	\$ 349.5
2009.07.27	426.6	-	426.6	0.13	429.5
2010.05.10	374.5~402.1	0.17	401.8	1.17	404.2
2011.08.09	275.6	1.17	275.6	2.17	277.4
2012.08.09	284.9	2.13	284.9	3.13	286.8
2013.08.09	365.6	3.17	365.6	4.17	368.0

Restricted stocks plan for employees

On June 24, 2016, the shareholders' meeting approved to issue gratuitous restricted stocks for employees, at a total of 17,500,000 common shares. The Company 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.

The Company has issued 10,528,505 gratuitous restricted stocks on September 6, 2016. The issuance process was granted effective registration by the securities authority.

The fair value of the restricted stocks issued was NT\$254.5 per share. The estimated compensation expense amounted to NT\$1,765,349 thousand in total based on the vesting conditions and will be recognized during the vesting period. For the year ended December 31, 2016, the Company had recognized NT\$289,321 thousand as compensation expense and NT\$1,476,028 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 the Company with gratuitous issue price.
- B. Employee's continuous employment with the Company through the vesting dates, no violation on any terms of the Company's employment agreement, employee handbook, or policies and achievement of both personal performance criterion and the Company's operation objectives during the vesting period are eligible to receive the vested shares. The maximum portions of the vesting shares of each year are 15%, 35%, and 50% for the year ended 2017, 2018, and 2019, respectively. The actual portions of the vesting shares shall be determined by achievement of both personal performance and the Company's operation objectives.

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

- C. During the vesting period, employees may not sell, pledge, transfer, give to another person, create any encumbrance on, or otherwise dispose of, restricted employee shares, excluding inheritance.
- D. During the vesting period, the rights of attending shareholders' meeting, proposal, speech, resolution and voting right, etc., and other rights of restricted stock plan for employees, including but not limited to, dividends, bonuses, the distribution rights of legal reserve and capital surplus, the right to subscription of new shares, etc. are as the same as the common shares issued by the Company.
- E. The restricted stock for employees issued by the Company may be deposited in a security trust account.

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

	For the year ended December 31, 2016
January 1, 2016	-
Granted (share)	10,528,505
Cancelled (share)	-
December 31, 2016	<u>10,528,505</u>

Share-based compensation expenses recognized for employee services received for the years ended December 31, 2016 and 2015, is shown in the following table:

	For the years ended December 31	
	2016	2015
Total equity-settled transactions (Note)	\$ 10,353	\$ 37,279
Restricted stock for employee	289,321	-
Total	<u>\$ 299,674</u>	<u>\$ 37,279</u>

Note: Recognized as losses on investments.

There have been no cancellations or modifications to any of the plans during the years ended December 31, 2016 and 2015.

(18) Sales

	For the years ended December 31	
	2016	2015
Sale of goods	\$ 134,144,526	\$ 108,650,905
Other operating revenues	2,569,536	2,099,433
Less: Sales returns and discounts	<u>(15,616,340)</u>	<u>(11,504,638)</u>
Net sales	<u>\$ 121,097,722</u>	<u>\$ 99,245,700</u>

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

- (19) Summary statement of employee benefits, depreciation and amortization expenses by function for the years ended December 31, 2016 and 2015:

	For the years ended December 31					
	2016			2015		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Pension	\$ 13,547	\$ 507,297	\$ 520,844	\$ 13,729	\$ 500,382	\$ 514,111
Others	\$ 361,557	\$ 18,703,708	\$ 19,065,265	\$ 296,840	\$ 17,190,195	\$ 17,487,035
Depreciation	\$ 4,019	\$ 1,183,396	\$ 1,187,415	\$ 3,689	\$ 906,929	\$ 910,618
Amortization	\$ -	\$ 1,612,673	\$ 1,612,673	\$ -	\$ 1,422,332	\$ 1,422,332

A resolution was passed at a shareholders' general meeting of the Company held on June 24, 2016 to amend the Articles of Incorporation of the Company. According to the amended Articles of Incorporation of the Company, 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, the Company's accumulated losses shall have been covered (if any). the Company 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.

The Company accrued employees' compensation and remuneration to directors based on a specific rate of profit of the year ended December 31, 2016. If the estimated amounts differ from the actual distribution resolved by the Board of Directors, the Company will recognize the change as an adjustment to income of next year. If the Board of Directors resolves to distribute employees' compensation in stock, the number of shares distributed is determined by dividing the amount of bonuses by the closing price (after considering the effect of cash and stock dividends) of shares on the day preceding the Board of Directors' meeting. A resolution was approved at a Board of Directors' meeting held on March 22, 2017 to distribute NT\$309,130 thousand and NT\$42,661 thousand in cash as employees' compensation and remuneration to directors, respectively. There were no material differences between the aforementioned approved amounts and the amounts charged against earnings in 2016.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

The Company accrued employees' compensation and remuneration to directors and supervisors based on a specific rate of profit of current year and the amend Articles of Incorporation of the Company for the year ended December 31, 2015. If the estimated amounts differ from the actual distribution resolved by the board of directors, the Company will recognize the change as an adjustment to income of next year. A resolution was approved at a Board of Directors' meeting held on March 17, 2016 to distribute NT\$351,232 thousand and NT\$47,416 thousand in cash as employees' compensation and remuneration to directors and supervisors, respectively. There were no material differences between the aforementioned approved amounts and the amounts charged against earnings in 2015.

(20) Other income

	For the years ended	
	December 31	
	2016	2015
Interest income	\$ 850,451	\$ 1,149,150
Dividend income	-	22,465
Rental income	27,530	17,192
Others	424,150	116,064
Total	\$ 1,302,131	\$ 1,304,871

(21) Other gains and losses

	For the years ended	
	December 31	
	2016	2015
Losses on disposal of property, plant and equipment	\$ (38)	\$ (2,828)
Gains (losses) on disposal of investments		
Available-for-sale financial assets	19,651	11,047
Held-to-maturity financial assets	-	(1,062)
Foreign exchange gains	545,835	77,763
Impairment losses		
Available-for-sale financial assets	-	(295,528)
Losses (gains) on financial assets at fair value through profit or loss	(33,307)	99,264
Losses on financial liabilities at fair value through profit or loss	(13,150)	(31,948)
Others	-	(297)
Total	\$ 518,991	\$ (143,589)

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

(22) Finance costs

	For the years ended	
	December 31	
	2016	2015
Interest expenses on borrowings	\$ 324,622	\$ 293,986

(23) Components of other comprehensive income

For the year ended December 31, 2016 :

	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	\$ (85,908)	\$ -	\$ (85,908)	\$ 14,605	\$ (71,303)
Share of other comprehensive income of subsidiaries, associates, and joint ventures accounted for using the equity method	17,288	-	17,288	-	17,288
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	(4,433,045)	-	(4,433,045)	-	(4,433,045)
Unrealized (losses) gains from available-for-sale financial assets	(255,165)	(19,651)	(274,816)	-	(274,816)
Share of other comprehensive income of subsidiaries, associates, and joint ventures accounted for using the equity method	10,524,772	-	10,524,772	-	10,524,772
Total of other comprehensive income	\$ 5,767,942	\$ (19,651)	\$ 5,748,291	\$ 14,605	\$ 5,762,896

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

For the year ended December 31, 2015 :

	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	\$ 348,151	\$ -	\$ 348,151	\$ (59,186)	\$ 288,965
Share of other comprehensive income of subsidiaries, associates, and joint ventures accounted for using the equity method	(19,103)	-	(19,103)	-	(19,103)
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	2,385,906	-	2,385,906	-	2,385,906
Unrealized (losses) gains from available-for-sale financial assets	(180,198)	284,481	104,283	-	104,283
Share of other comprehensive income of subsidiaries, associates, and joint ventures accounted for using the equity method	(1,191,384)	-	(1,191,384)	-	(1,191,384)
Total of other comprehensive income	\$ 1,343,372	\$ 284,481	\$ 1,627,853	\$ (59,186)	\$ 1,568,667

(24) Income tax

The major components of income tax expense are as follows:

	For the years ended December 31	
	2016	2015
Current income tax	\$ 1,070,171	\$ 296,281
Deferred tax (income) expenses	(85,930)	1,778,333
Others	3,861	18,138
Income tax expense recognized in profit or loss	\$ 988,102	\$ 2,092,752

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

	For the years ended	
	December 31,	
	2016	2015
Deferred tax (income) expense:		
Remeasurements of the defined benefit plan	\$ (14,605)	\$ 59,186

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

	For the years ended	
	December 31	
	2016	2015
Accounting profit before tax from continuing operations	\$ 24,688,700	\$ 28,051,181
Tax at the domestic rates applicable to profits in the country concerned	\$ 4,197,079	\$ 4,768,701
Tax effect of revenues exempt from taxation	(206,519)	(5,692)
Tax effect of expenses not deductible for tax purposes	-	-
Investment tax credits	(340,133)	(234,206)
Tax effect of deferred tax assets/liabilities	(3,573,355)	(3,297,498)
10% surtax on undistributed retained earnings	634,503	780,688
Others	276,527	80,759
Total income tax expense recognized in profit or loss	\$ 988,102	\$ 2,092,752

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

For the year ended December 31, 2016

	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Charged directly to equity	Exchange differences	Ending balance
Temporary differences						
Unrealized allowance for inventory obsolescence	\$ 602,286	\$ 76,870	\$ -	\$ -	\$ -	\$ 679,156
Allowance for sales returns and discounts	528,677	79,361	-	-	-	608,038
Amortization of difference for tax purpose	14,392	98,458	-	-	-	112,850
Amortization of goodwill difference for tax purpose	(1,329,691)	(169,278)	-	-	-	(1,498,969)
Others	126,792	519	14,605	-	-	141,916
Deferred tax income		<u>\$ 85,930</u>	<u>\$ 14,605</u>	<u>\$ -</u>	<u>\$ -</u>	
Net deferred tax assets	<u>\$ (57,544)</u>					<u>\$ 42,991</u>
Reflected in balance sheet as follows:						
Deferred tax assets	<u>\$ 1,274,935</u>					<u>\$ 1,541,960</u>
Deferred tax liabilities	<u>\$ (1,332,479)</u>					<u>\$ (1,498,969)</u>

For the year ended December 31, 2015

	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Charged directly to equity	Exchange differences	Ending balance
Temporary differences						
Unrealized allowance for inventory obsolescence	\$ 741,114	\$ (138,828)	\$ -	\$ -	\$ -	\$ 602,286
Allowance for sales returns and discounts	1,238,989	(710,312)	-	-	-	528,677
Amortization of difference for tax purpose	217,199	(202,807)	-	-	-	14,392
Amortization of goodwill difference for tax purpose	(619,240)	(710,451)	-	-	-	(1,329,691)
Others	201,913	(15,935)	(59,186)	-	-	126,792
Deferred tax expense		<u>\$(1,778,333)</u>	<u>\$ (59,186)</u>	<u>\$ -</u>	<u>\$ -</u>	
Net deferred tax assets	<u>\$ 1,779,975</u>					<u>\$ (57,544)</u>
Reflected in balance sheet as follows:						
Deferred tax assets	<u>\$ 2,400,152</u>					<u>\$ 1,274,935</u>
Deferred tax liabilities	<u>\$ (620,177)</u>					<u>\$ (1,332,479)</u>

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**Integrated income tax information

	December 31, 2016	December 31, 2015
Balance of the imputation credit account	\$ 9,743,192	\$ 9,546,658

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

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

The tax authorities have assessed income tax returns of the Company through 2013. The Company has applied for administrative appeals of the tax returns of 2012, 2011, 2010, 2009 and 2008, and the original subsidiary of Ralink Technology Corp. prior merged into MTK, has applied for administrative appeals of the tax returns of 2013. The Company disagreed with the decision made in the tax assessment notices. The Company has paid in full the additional taxes assessed by the tax authorities.

(25) Earnings per share

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

	For the years ended December 31	
	2016	2015
A. Basic earnings per share		
Profit (in thousand NT\$)	\$ 23,700,598	\$ 25,958,429
Weighted average number of ordinary shares outstanding for basic earnings per share (share)	1,563,789,601	1,563,777,089
Basic earnings per share (NT\$)	\$ 15.16	\$ 16.60

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

	For the years ended	
	December 31	
	2016	2015
B. Diluted earnings per share		
Profit (in thousand NT\$)	\$ 23,700,598	\$ 25,958,429
Weighted average number of ordinary shares		
outstanding for basic earnings per share (share)	1,563,789,601	1,563,777,089
Effect of dilution:		
Employees' compensation-stock (share)	1,716,700	2,079,669
Employee stock options (share) (Note)	-	445,369
Restricted stocks for employees (share)	1,330,974	-
Weighted average number of ordinary shares		
outstanding after dilution (share)	1,566,837,275	1,566,302,127
Diluted earnings per share (NT\$)	\$ 15.13	\$ 16.57

Note: There were no dilutive employee stock options for the year ended December 31, 2016.

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

7. Related Party Transactions**(1) Significant transactions with related parties****A. Sales**

	For the years ended	
	December 31	
	2016	2015
Subsidiaries	\$ 2,059,592	\$ 1,082,952
Associates	-	3,190
Total	\$ 2,059,592	\$ 1,086,142

The trade credit terms for related parties and third-party customers were both 45 to 60 days. Third-party customers may pay their accounts in advance. Above sales include royalty revenues, which were charged based on the royalty agreement and collected with certain period.

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

B. IC testing, experimental services, and manufacturing technology services

	For the years ended	
	December 31	
	2016	2015
Other related parties	\$ 2,094,607	\$ 1,227,583

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

C. Consign research and development expenses and license expenses

	For the years ended	
	December 31	
	2016	2015
Subsidiaries	\$ 2,111,562	\$ 5,393,119
Associates	-	6,570
Other related parties	26,656	31,628
Total	\$ 2,138,218	\$ 5,431,317

D. NT\$41,446 thousand and NT\$10,361 thousand were paid for office rented from subsidiaries for the years ended December 31, 2016 and 2015, respectively.

E. Rental income

	For the years ended	
	December 31	
	2016	2015
Subsidiaries	\$ 9,344	\$ 4,324
Associates	7,036	857
Other related parties	4,184	10,128
Total	\$ 20,564	\$ 15,309

NT\$1,710 thousand and NT\$876 thousand were received from associates and other related parties and were accounted for deposits received due to a lease of office space for the years ended December 31, 2016 and 2015, respectively.

F. Other income due to technology service

	For the years ended	
	December 31	
	2016	2015
Subsidiaries	\$ 306,612	\$ 58,873

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

G. Endorsement amount for office lease, bank financing and IP purchasing

	As of December 31, 2016		As of December 31, 2015	
	Endorsement limit	Actual amount	Endorsement limit	Actual amount
Subsidiaries	\$ 33,033,221	\$ 15,136,888	\$ 33,048,463	\$ 18,598,489

H. Acquisition of intangible assets

	For the years ended December 31	
	2016	2015
Other related parties	\$ -	\$ 9,944

I. Disposal of property, plant and equipment

	For the years ended December 31			
	2016		2015	
	Carrying amount	Proceeds	Carrying amount	Proceeds
Subsidiaries	\$ 83,780	\$ 83,764	\$ -	\$ -

J. Disposal of intangible assets

	For the years ended December 31			
	2016		2015	
	Carrying amount	Proceeds	Carrying amount	Proceeds
Subsidiaries	\$ 785	\$ 785	\$ -	\$ -

K. Trade receivables from related parties

	December 31, 2016	December 31, 2015
Subsidiaries	\$ 339,275	\$ 108,570

L. Other receivables from related parties

	December 31, 2016	December 31, 2015
Subsidiaries	\$ 1,654,086	\$ 137,043
Associates	3,003	75
Total	\$ 1,657,089	\$ 137,118

Other receivables from related parties were composed mainly of rent receivables and dividends receivables.

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

M. Trade payables to related parties

	December 31, 2016	December 31, 2015
Other related parties	\$ 468,694	\$ 342,812

N. Other payables to related parties

	December 31, 2016	December 31, 2015
Subsidiaries	\$ -	\$ 406,046

O. Key management personnel compensation

	For the years ended December 31	
	2016	2015
Short-term employee benefits (Note)	\$ 588,899	\$ 578,696
Post-employment benefits	1,311	11,910
Share-based payment	126,091	-
Total	\$ 716,301	\$ 590,606

Note: The compensation (including remuneration to directors) to key management personnel was determined by the Compensation Committee of the Company 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
	December 31, 2016	December 31, 2015	
Debt instrument investments for which no active market exists-current	\$ -	\$ 15,714	Land lease guarantee
Debt instrument investments for which no active market exists-current	9,180	9,180	Customs clearance deposits
Debt instrument investments for which no active market exists-current	9,705	-	Lease execution deposits
Debt instrument investments for which no active market exists-noncurrent	-	9,705	Lease execution deposits
Debt instrument investments for which no active market exists-noncurrent	22,964	-	Land lease guarantee
Total	\$ 41,849	\$ 34,599	

MEDIATEK INC.

NOTES TO 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 fourteen to twenty years.

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

	December 31, 2016	December 31, 2015
Not later than one year	\$ 38,032	\$ 38,871
Later than one year but not later than five years	152,129	155,484
Later than five years	215,992	199,061
Total	<u>\$ 406,153</u>	<u>\$ 393,416</u>

Operating lease expenses are as follows:

	For the years ended December 31	
	2016	2015
Minimum lease payments	<u>\$ 155,646</u>	<u>\$ 120,006</u>

(2) Legal claim contingency

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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

- Also on September 3, 2013, Optical Devices filed a complaint in the United States District Court for the District of Delaware against the Company and subsidiary MediaTek USA Inc., alleging that the Company's optical disc drive chips infringe the above referenced patent. The operations of the Company and subsidiary MediaTek USA Inc. would not be materially affected by this case.
- B. Luciano F. Paone filed a complaint in the United States District Court for the South District of New York against subsidiary MediaTek USA Inc. on February 6, 2015, alleging infringement of United States Patent No. 6,259,789. The court dismissed the claims with prejudice against MediaTek USA Inc. pursuant to the parties' joint stipulation on March 2, 2016.
- C. Innovatio IP Ventures, LLC ("Innovatio") filed a complaint in the United States District Court for the Northern District of Illinois against subsidiary MediaTek USA Inc. on March 16, 2015, alleging infringement of United States Patent Nos. 6,697,415, 5,844,893, 5,740,366, 7,916,747, 6,665,536, 7,013,138, 7,107,052, 5,546,397, 7,710,907, 7,710,935, 6,714,559, 7,457,646 and 6,374,311. The court dismissed the claims with prejudice against MediaTek USA Inc. pursuant to the parties' joint stipulation on August 22, 2016.
- D. Mariner IC Inc. ("Mariner") filed a complaint in the United States District Court for the Eastern District of Texas against the Company and subsidiary MediaTek USA Inc. on April 25, 2016, alleging infringement of United States Patent Nos. 5,560,666 and 5,846,874. The operations of the Company and subsidiary MediaTek USA Inc. would not be materially affected by this case.
- E. Semcon IP Inc. ("Semcon") filed a complaint in the United States District Court for the Eastern District of Texas against the Company and subsidiary MediaTek USA Inc. on April 25, 2016, alleging infringement of United States Patent Nos. 7,100,061, 7,596,708, 8,566,627 and 8,806,247. The operations of the Company and subsidiary MediaTek USA Inc. would not be materially affected by this case.
- F. ZiiLabs Inc. Ltd. ("ZiiLabs") filed a complaint with the Commission against the Company and subsidiary MediaTek USA Inc. on December 16, 2016 alleging infringement of United States Patent No. 6,677,952, 6,950,350, 7,518,616, 8,643,659. The operations of the Company and subsidiary MediaTek USA Inc. would not be materially affected by this case.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

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

- G. Advanced Micro Devices, Inc. and ATI Technologies ULC (collectively “AMD”) filed a complaint with the Commission against the Company and subsidiary MediaTek USA Inc. on January 24, 2017 alleging infringement of United States Patent No. 7,633,506, 7,796,133, 8,760,454, and 9,582,846. The operations of the Company and subsidiary MediaTek USA Inc. would not be materially affected by this case.
- H. Broadcom Corporation (“Broadcom”) filed a complaint with the Commission against the Company and subsidiary MediaTek USA Inc. and MStar Semiconductor Inc. on March 7, 2017 alleging infringement of United States Patent No. 8,284,844, 7,590,059, 8,068,171, 7,310,104, and 7,342,967. The operations of the Company and subsidiaries MediaTek USA Inc. and MStar Semiconductor Inc. would not be materially affected by this case.

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

The Company will handle these cases carefully.

10. Losses due to Major Disasters

None

11. Significant Subsequent Events

- (1) On February 10, 2017, the board of directors of subsidiary Hsu-Si Investment Corp. (“Hsu-Si”) approved a tender offer to acquire shares of Airoha Technology Corp. (“Airoha”). The tender offer period was set from February 13, 2017 to March 14, 2017. The terms of the offer was NT\$110 in cash for each outstanding common share of Airoha. As of March 14, 2017, the number of shares validly tendered and not withdrawn was 32,191,281 shares (approximately 53% of Airoha’s outstanding common shares) and the actual number of shares acquired was 24,230,620 shares (approximately 40% of Airoha’s outstanding common shares). The total consideration was NT\$2,665,368 thousand and the terms of the tender offer were fulfilled.

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

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

- (2) The board of directors of subsidiary Hsu-Chuang Investment Corp. ("Hsu-Chuang") approved to terminate the contract "Creation of Superficies of Commercial Development Project of the High Speed Rail Hsinchu Station Designated District" signed with Bureau of High Speed Rail, Ministry of Transportation and Communications of R.O.C. as a result of Hsu-Chuang's restructuring of resources planning. The termination of the contract has no significant effect to the Company.

12. Others

(1) Financial instruments

A. Categories of financial instruments

Financial assets

	December 31, 2016	December 31, 2015
Financial assets at fair value through profit or loss:		
Held for trading financial assets	\$ 1,850	\$ 232
Financial assets designated upon initial recognition at fair value through profit or loss	681,114	1,339,006
Subtotal	682,964	1,339,238
Available-for-sale financial assets	5,776,007	6,113,054
Held-to-maturity financial assets	-	1,128,925
Loans and receivables:		
Cash and cash equivalents (excluding cash on hand and petty cash)	60,244,970	74,921,175
Debt instrument investments for which no active market exists	41,849	34,599
Trade receivables (including related parties)	6,145,702	4,568,083
Other receivables	5,346,492	1,676,068
Subtotal	71,779,013	81,199,925
Total	\$ 78,237,984	\$ 89,781,142

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

	December 31, 2016	December 31, 2015
<u>Financial liabilities</u>		
Financial liabilities at fair value through profit or loss:		
Held for trading financial liabilities	\$ 45,098	\$ 31,948
Financial liabilities at amortized cost:		
Short-term borrowings	26,791,570	23,807,520
Trade payables (including related parties)	9,948,329	6,103,280
Other payables	18,371,524	17,424,589
Long-term payables (including current portion)	-	56,212
Subtotal	55,111,423	47,391,601
Total	\$ 55,156,521	\$ 47,423,549

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

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

b. Fair value of financial instruments measured at amortized cost

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

	Carrying amount as of	
	December 31, 2016	December 31, 2015
Financial assets		
Held-to-maturity financial assets		
Bonds	\$ -	\$ 1,128,925
	Fair value as of	
	December 31, 2016	December 31, 2015
Financial assets		
Held-to-maturity financial assets		
Bonds	\$ -	\$ 1,129,657

c. Fair value measurement hierarchy

(a) Fair value measurement hierarchy

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

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

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

Level 3: Unobservable inputs for the assets or liabilities.

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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

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

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

As of December 31, 2016

	Level 1	Level 2	Level 3	Total
<u>Financial assets:</u>				
Financial assets at fair value through profit or loss				
Derivative financial instruments	\$ -	\$ 1,850	\$ -	\$ 1,850
Linked deposits	-	-	681,114	681,114
Available-for-sale financial assets				
Depository receipts	23,314	-	-	23,314
Stocks	381,959	-	-	381,959
Funds	4,112,711	-	-	4,112,711
Bonds	1,258,023	-	-	1,258,023
Total	<u>\$ 5,776,007</u>	<u>\$ 1,850</u>	<u>\$ 681,114</u>	<u>\$ 6,458,971</u>

Financial liabilities

Financial liabilities at fair value through profit or loss

Derivative financial instruments	<u>\$ -</u>	<u>\$ 45,098</u>	<u>\$ -</u>	<u>\$ 45,098</u>
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As of December 31, 2015

	Level 1	Level 2	Level 3	Total
<u>Financial assets:</u>				
Financial assets at fair value through profit or loss				
Derivative financial instruments	\$ -	\$ 232	\$ -	\$ 232
Linked deposits	-	-	1,339,006	1,339,006
Available-for-sale financial assets				
Depository receipts	34,942	-	-	34,942
Stocks	453,050	-	-	453,050
Funds	4,364,447	-	-	4,364,447
Bonds	1,260,615	-	-	1,260,615
Total	<u>\$ 6,113,054</u>	<u>\$ 232</u>	<u>\$ 1,339,006</u>	<u>\$ 7,452,292</u>

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

	Level 1	Level 2	Level 3	Total
<u>Financial liabilities</u>				
Financial liabilities at fair value through profit or loss				
Derivative financial instruments	\$	-	\$ 31,948	\$ - \$ 31,948

For the years ended December 31, 2016 and 2015, there were no transfers between Level 1 and Level 2 of the fair value hierarchy.

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

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

	Financial assets at fair value through profit or loss	
	Linked deposits	
As of January 1, 2016	\$	1,339,006
Amount recognized in profit or loss		(47,558)
Acquisitions		276,700
Settlements		(887,034)
As of December 31, 2016	\$	681,114
	Financial assets at fair value through profit or loss	
	Linked deposits	
As of January 1, 2015	\$	1,090,775
Amount recognized in profit or loss		1,626
Acquisitions		921,576
Settlements		(674,971)
As of December 31, 2015	\$	1,339,006

Total profits or losses related to linked deposits on hand recognized for the years ended December 31, 2016 and 2015 amounted to NT\$(47,558) thousand and NT\$655 thousand, respectively.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

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

The Company's linked-deposits of the fair value hierarchy are based on unadjusted quoted price of trading 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.

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

As of December 31, 2016

None

As of December 31, 2015

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets not measured at fair value but for which the fair value is disclosed:				
Held-to-maturity financial assets				
Bonds	\$ 1,129,657	\$ -	\$ -	\$ 1,129,657

- D. Derivative financial instruments

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

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

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 December 31, 2016	TWD to USD	Sell USD 220,000	January 2017
As of December 31, 2016	TWD to USD	Sell USD 40,000	February 2017
As of December 31, 2015	TWD to USD	Sell USD 145,000	January 2016

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

(2) Financial risk management objectives and policies

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

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

A. Market risk

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

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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

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.

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

When NTD appreciates or depreciates against USD by 0.1%, the profit for the years ended December 31, 2016 and 2015 decreases/increases by NT\$3,075 thousand and NT\$3,526 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 investments with variable interest rates, bank borrowings with fixed interest rates. Moreover, the market value of the Company's investment in credit-linked deposits are affected by interest rate. The market value would decrease (even lower than the principal) when the interest rate increases, and vice versa. The market values of exchange rate-linked deposits are affected by interest rates and changes in the value and volatility of the underlying. The following sensitivity analysis focuses on interest rate risk and does not take into account the interdependencies between risk variables.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

The interest rate sensitivity analysis is performed on items exposed to interest rate risk as of the end of the reporting period, including investments with variable interest rates. At the reporting date, an increase/decrease of 10 basis points of interest rate in a reporting period could cause both profit for the years ended December 31, 2016 and 2015 increase/decrease by NT\$5 thousand.

c. Other price risk

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

A change of 1% in the price of the listed equity securities classified under available-for-sale could only impact the Company's equity and cause the other comprehensive income for the years ended December 31, 2016 and 2015 to increase/decrease by NT\$45,180 thousand and NT\$48,524 thousand, respectively.

B. Credit risk management

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

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

As of December 31, 2016 and 2015, receivables from top ten customers represented 52.64% and 68.32% of the total trade receivables of the Company, respectively. The credit concentration risk of other accounts receivables was insignificant.

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

The Company's exposure to credit risk arises from potential default of the counter-party or other third-party. The level of exposure depends on several factors including concentrations of credit risk, components of credit risk, the price of contract and other receivables of financial instruments. Since the counter-party or third-party to the foregoing forward exchange contracts 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 arises if the issuing banks breached the contracts or the debt issuer could not pay off the debts; the maximum exposure is the carrying value of those financial instruments. Therefore, the Company minimized the credit risk by only transacting with counter-party who is reputable, transparent and in good financial standing.

C. Liquidity risk management

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

Non-derivative financial instruments

	Less than 1 year	1 to 5 years	Total
<u>As of December 31, 2016</u>			
Borrowings	\$ 26,801,792	\$ -	\$ 26,801,792
Trade payables (including related parties)	9,948,329	-	9,948,329
Other payables	18,356,954	-	18,356,954
Total	<u>\$ 55,107,075</u>	<u>\$ -</u>	<u>\$ 55,107,075</u>
<u>As of December 31, 2015</u>			
Borrowings	\$ 23,831,030	\$ -	\$ 23,831,030
Trade payables (including related parties)	6,103,280	-	6,103,280
Other payables	17,411,237	-	17,411,237
Long-term payables	56,212	-	56,212
Total	<u>\$ 47,401,759</u>	<u>\$ -</u>	<u>\$ 47,401,759</u>

MEDIATEK INC.

NOTES TO 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 December 31, 2016</u>			
Net settlement			
Forward exchange contracts	\$ (47,710)	\$ -	\$ (47,710)
<u>As of December 31, 2015</u>			
Net settlement			
Forward exchange contracts	\$ (33,750)	\$ -	\$ (33,750)

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

(3) Significant assets and liabilities denominated in foreign currencies

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

	<u>December 31, 2016</u>		
	<u>Foreign Currency</u>	<u>Exchange rate</u>	<u>NT\$ (thousand)</u>
	<u>(thousand)</u>		
<u>Financial assets</u>			
Monetary item:			
USD	\$ 1,543,257	32.279	\$ 49,814,785
<u>Financial liabilities</u>			
Monetary item:			
USD	\$ 1,189,344	32.279	\$ 38,390,857
	<u>December 31, 2015</u>		
	<u>Foreign Currency</u>	<u>Exchange rate</u>	<u>NT\$ (thousand)</u>
	<u>(thousand)</u>		
<u>Financial assets</u>			
Monetary item:			
USD	\$ 1,184,206	33.066	\$ 39,156,956
<u>Financial liabilities</u>			
Monetary item:			
USD	\$ 933,532	33.066	\$ 30,868,185

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

The Company's currency are various, and hence is not able to disclose the information of exchange gains and losses of monetary financial assets and liabilities by each significant assets and liabilities denominated in foreign currencies. The foreign exchange gain was NT\$545,835 thousand and NT\$77,763 thousand for the years ended December 31, 2016 and 2015, 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.



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