Annual Report 2017

MEDIATEK

Stock code : 2454 Date : April 30, 2018

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2017 MediaTek Annual Report
Table of Contents

I. Letter to Shareholders

Dear Shareholders:

2017 marks the 20th Anniversary of MediaTek. Starting with 20 employees in the multi-media team, we had grown to be a leading technology group with global operations in 14 countries. MediaTek has always been devoted to providing customers with innovate and higher-value products and services. Also, we leverage cross-platform advantages, working closely with international leading technology corporations, such as Amazon, Google and Sony, across platforms, including smartphone, artificial intelligence (AI) voice assistant device, TV, game console, etc. Furthermore, MediaTek continues to extend into high-potential product lines and expand markets. Thanks to our employees' dedication, MediaTek achieved full year consolidated net revenues of NT $238.2 billion and consolidated earnings per share of NT $15.56.

After years of efforts and acquisitions, MediaTek Group has a more comprehensive product portfolio and more diversified revenue streams. Notably, growth products, including Internet of Things (IoT), power management IC and ASIC, delivered outstanding performance in 2017 with both revenue annual growth rate and sales percentage exceeding 30 percent. Emerging IoT applications boost demand for various MediaTek connectivity chips, including WiFi, Bluetooth, 2G/3G and NB-IoT. MediaTek has our finger on the pulse, positioning as a leader in the rising AI voice assistant device market and making a united effort with global leading brands such as Amazon and Alibaba to launch end devices. In addition, with rich wireless communication and high-speed computing IPs, MediaTek provides ASIC to international tier-one customers, which is a new revenue driver. Meanwhile, MediaTek deepens cooperation on power management platform, maximizing group synergy. Overall speaking, these growth products all have mid to long term growth potential which are MediaTek's targeted areas for expansion. Also, MediaTek continuously expand into new areas such as automotive and data center switch to capture future growth momentum.

Mobile communication platforms, including smartphone and tablets, account for approximately 40 percent of total turnover and are important incubators for new technologies such as multi-media and mobile communication. MediaTek continues to add product value such as brining AI and premium multimedia functions into 4G mainstream market, which enables us to be on track with our targets of share gain and profitability improvement. Meanwhile, MediaTek actively invests in 5G developments, not only co-developing a range of 5G technologies with Taiwan's Industrial Technology Research Institute, but also being the industry's first chipset maker to develop mobile-phone-sized antennas and complete a 5G interoperability development testing with Huawei. MediaTek aims to occupy an important position in 5G era. The rest of 30 percent of sales come from relatively mature product lines, including TV, feature phone, optical storage and DVD, where we have decent shares and contribute stable profitability and cash flow to the Group. With this diversified revenue portfolio, namely growth products, mobile communication and mature products, MediaTek aims to extend our leading market position.

MediaTek has received a number of international honors in recognition of our efforts on global expansion for the past 20 years. For example, Forbes listed MediaTek as one of "Top Multi-national Performers", "Growth Champions" and "Asia's Fab 50 Companies". MediaTek understands that there is no room for complacency and is committed to make contributions to local society and promote science education. For instance, we cooperated with Hsinchu City

Government to transform Hsinchu Taiwan Pavilion Expo Park into the Children Discovery Center. We also collaborated with Tainan City Government to build smart city by leveraging IoT technologies to prevent the spread of Dengue Fever and support local reading program. Going forward, MediaTek continues to dedicate to Taiwan by three dimensions, including technology cultivation, social innovation and talent incubation.

Furthermore, MediaTek attaches a great importance on talent, devoted to providing employees with excellent working environment and world-class platform to sustain our leading global competitiveness. Our commitment to corporate governance enhancement and sustainable development are well recognized. We received Taiwan Corporate Sustainability Awards' highest honor for the very first time, namely, "The Most Prestigious Sustainability Awards-Top Ten Domestic Corporate ", as well as its "Top 50 Corporate Sustainability Report Award", "Growth through Innovation Award", "Social Inclusion Award" and "Supply Chain Management Award". Also, we were included in FTSE4Good index. These achievements affirmed MediaTek's dedication on fulfilling corporate social responsibility.

Looking forward, MediaTek will carry on exploiting our global exposure and comprehensive IP portfolio advantages, investing in advanced technologies and markets with potential such as 5G, AI, next generation WiFi technology (11ax), Internet of Vehicles, IoT, etc. With our leading core technologies, we will integrate brand-new features to enhance our solutions' value, strengthen corporate competitiveness and technology fundamentals, cooperate with customers to create market opportunities, maintain our industry 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
CEO: Lih-Shyng Tsai

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, United States, Japan, Korea, England, Finland, Sweden, France, Holland and Dubai.

With continuous investments in advanced process and technologies, the Company provides chipset solutions across platforms, including mobile devices, smart home, connectivity, IoT and wearable, automotive and ASIC as well as enable global customers to innovate and provide higher value products and services. MediaTek has a leading position globally and possesses competitive edge.

By building technologies that help connect individuals to the world around them, the Company 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
2018	■ Published 4 papers in ISSCC and hit a new record of papers selected by ISSCC for 15 consecutive years among Taiwan companies – "An 87.1% Efficiency RF-PA Envelope Tracking Modulator for 80MHz LTE- Advanced Transmitter and 31dBm PA Output Power for HPUE in 0.153µm CMOS", "A 0.0004% (-10BdB) THD+N 112dB SNR and 3.15W Fully Differential Class-D Audio Amplifier with Gm Noise Cancellation and Negative Output Common Mode Injection Techniques", "A 50MHz-BW Continuous -Time lII: ADC with Dynamic Error Correction Achieving 79.8dB SNDR and 95.2dB SFDR (Co-author with Oregon State University)", and "94% Power-Recycle and Near-Zero Driving-Dead-Zone N-type LowDropout Regulator with 20mV Undershoot at Short-Period LoadTransient of Flash Memory in Smart Phone"
2017	■ Selected as "Taiwan Top 10 Global Brands", hosted by Ministry of Economic Affairs and Interbrand for the third consecutive year ■ Received Taiwan Corporate Sustainability Awards' highest honor for the very first time, namely, "The Most Prestigious Sustainability Awards-Top Ten Domestic Corporate ", as well as its "Top 50 Corporate Sustainability Report Award", "Growth through Innovation Award", "Social Inclusion Award" and "Supply Chain Management Award" ■ Rated by Forbes as one of "Top Multinational Performers" and "Growth Champions" as well as "Asia's Fab 50 Companies" ■ Awarded "Top 100 Applicants" by European Patent Office (EPO) for the third consecutive year. ■ Received award of "Foreign Direct Investment Company of the Year 2017" from City of Oulu, Finland ■ Listed in PwC's "The 2017 Global Innovation 1000 Study" as one of the world's top corporate R&D investors ■ Selected as FTSE4Good Index component ■ MediaTek HEVC codec won 2017 Primetime Emmy Engineering Award ■ MediaTek Helio X30 honored as "Innovation Product Award and R&D Accomplishment Award (Integrated Circuit)" by Hsinchu Science Park Bureau ■ Published 10 papers in ISSCC and hit a new record of number of papers selected by ISSCC among MediaTek's history, Taiwanese companies and global semiconductor companies – "A high-efficiency multi-band Class-F power amplifier in O.1531Jm bulk CMOS lor WCDMA/LTE applications", "A 0.46mW 5MHzBW79.7dB SNDR Nolse•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 5tage2(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 BLElBT 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-", "A Fully Integrated Multi-Mode TxM for GSMIEDGElTD-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" ■ Acquired Airoha Technology Corp.

Year	Milestones
2016	■ 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 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 13 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 Award and R&D Accomplishment Award (Integrated Circuit)” given by Hsinchu Science Park Bureau
2015	■ 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 GSA for the fourth consecutive year ■ Mr. Ming-Kai Tsai, MediaTek Chairman and CEO, winner of “Dr. Morris Chang Exemplary Leadership Award” awarded by GSA ■ Selected as “Taiwan Top 10 Global Brands 2015”, hosted by Ministry of Economic Affairs and 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 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 12 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.

Year	Milestones
2014	■ Named "Outstanding Asia Pacific Semiconductor Company Award" by the 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 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 PICC-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	■ Once again won "Outstanding Asia-Pacific Semiconductor Company Award" selected by GSA ■ 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"
2012	■ 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 GSA ■ Awarded "2012 Top 10 Taiwan Innovative Corporations" by Ministry of Economic Affairs, China Productivity Center and 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"

Year	Milestones
2011	■ MT5395, highly-integrated 3D/Internet TV SoC, honored as "2011 The Most Innovative Product" by 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	■ 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 8 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	■ Awarded "Innovative Product Award" for the Company's High Sensitivity GPS SoC by SIPA ■ Awarded "Asia Pacific Leadership Council Award" by 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	■ Awarded "Innovative Product Award" for the Company's Full-HD ATSC DTV SoC, by SIPA ■ Launched Blu-ray DVD player chipset, GSM/GPRS/EDGE handset baseband chip, and next-generation ATSC and DVB-T digital TV single-chip ■ Awarded "Best Financially Managed Company" by Fabless Semiconductor Association (FSA) ■ 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, hit a new record of papers selected by ISSCC for 5 consecutive years among Taiwan companies, and was the only selected Taiwan company – "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	■ 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 FSA for the second consecutive years ■ 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	■ Awarded "Innovative Product Award" for the Company's Blu-ray DVD player chipset, by 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 FSA

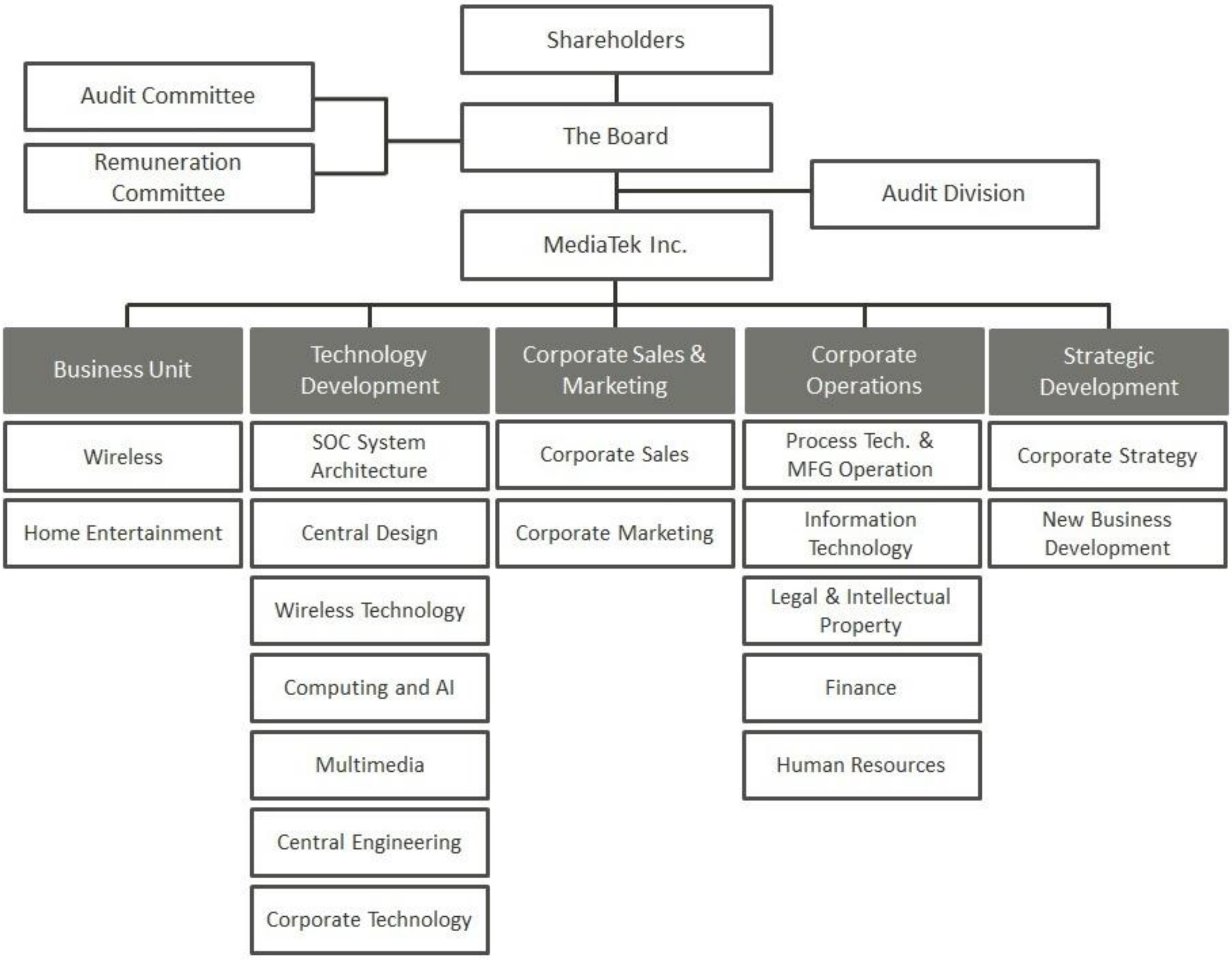
Year	Milestones
2005	■ Awarded "Innovative Product Award" for the Company's multimedia GSM/GPRS mobile phone chipset, by SIPA ■ Launched ATSC and DVB-T high-resolution LCD TV chipset ■ Awarded "The Asian Top 50" by Forbes Asia ■ Awarded the 10th annual "Most Admired Company in Taiwan" by CommonWealth 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	■ Awarded "Innovative Product Award" for the Company's DVD-Recorder Backend single-chip, by 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 ninth annual "Most Admired Company in Taiwan" by CommonWealth Magazine
2003	■ Awarded "Innovative Product Award" for the Company's 8x DVD-read/write (DVD-R/W) optical storage chipset, by 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	■ Awarded "Innovative Product Award" for the company's high-speed COMBI optical storage chipset by SIPA ■ Launched 48x CD-R/W chipset ■ Launched CD/DVD COMBI chipset
2001	■ Awarded "Innovative Product Award" for the Company's high-integration DVD-Player chipset by SIPA ■ Awarded the ninth annual MOEA Award for Industrial Technology Advancement ■ Listed on the Taiwan Stock Exchange (TSE) under the ticker of "2454"
2000	■ Awarded "Innovative Product Award" for the Company's high-speed CD-R/RW chipset by SIPA ■ Launched 12x DVD-ROM chipset
1999	■ Awarded "Innovative Product Award" for the Company's 12x DVD-ROM chipset by SIPA ■ Launched 12-x DVD-ROM chipset
1998	■ Awarded "Innovative Product Award" for the Company's CD-ROM digital data/servo processor by SIPA ■ Launched the highest performance 48x CD-ROM chipset in the world
1997	■ Founded on May 28th

III. Corporate Governance

1. Organization

1.1. Organization Chart

As of April 30, 2018



1.2. Major Corporate Functions

Department	Functions
Wireless	Research, design and promote mobile communication chips
Home Entertainment	Research, design and promote intelligent entertainment, intelligent connectivity, intelligent display, ASIC and intelligent automotive chips
SOC System Architecture	Construct and plan competitive and technology-leading chips
Central Design	Integrate and implement technologies into chips, including wireless communication, computing and artificial intelligence, multimedia, analog, circuit and RF
Wireless Technology	Develop and design wireless communication core technologies, system, software, wireless communication technologies and communication system
Computing and AI	Research and develop high-efficiency computing platforms and artificial intelligence technologies
Multimedia	Research and develop video and image multimedia technologies
Central Engineering	Research and develop analog technologies in wireless communication field, including RF, audio/video, transmission interface, server and power as well as board design, high-performance circuit and advanced processor technologies
Corporate Technology	Research and develop advanced technologies and manage industry-academia collaboration
Corporate Sales	Sell products, develop customers, maintain customer relationship and manage sales operation
Corporate Marketing	Manage corporate image and promote market position
Process Tech. & MFG Operation	Pilot run products in development, develop related technologies, manage quality and reliability, manage customer satisfaction, plan production and procurements, research and develop advanced process, pilot run high-end products and develop component technologies
Information Technology	Manage information system architecture, e-commerce strategy, information system development and operation and information security
Legal & Intellectual Property	Manage corporate legal affairs, contracts, patents, and other intellectual property
Finance	Manage finance and accounting, tax, treasury and asset, strategic investments and investor relations
Human Resources	Manage human resource, organization development, general affairs, plant administration, and labor safety
Corporate Strategy	Analyze, plan and execute corporate strategies
New Business Development	Assess and assure new market opportunities
Audit Division	Manage internal audit, operational procedure and information security

2. Directors

2.1. Information Regarding Board Members

As of April 30, 2018/ 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 the Company 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	2.60%	41,062,592	2.60%	45,552,145	2.88%	-	-	- Master, Electrical Engineering, University of Cincinnati, USA - President of the 2nd Business Group, UMC	- Chairman, Andes Technology Corp.
Vice Chairman **Ching-Jiang Hsieh**	R.O.C	Male	June 12, 2015	3	June 13, 2005	4,004,921	0.25%	4,052,648	0.26%	856,051	0.05%	-	-	- Master, Electrical Engineering, National Taiwan University - Engineer, Multimedia R&D Team, UMC	- Chairman / Director, MediaTek affiliates.
Director **Lih-Shyng Tsai** **(Note2)**	R.O.C	Male	June 15, 2017	1	June 15, 2017	-	-	31,500	0.00%	-	-			- Ph.D., Material Science, Cornell University, USA - Chairman & CEO, Chunghwa Telecom Co., Ltd. - President & CEO, TSMC	- CEO, MediaTek Inc. - Independent Director, USI Corporation - Director, Lam Research Corporation
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 - Microelectronics VP of worldwide sales, IBM - Professor, Department of Economics, National Tsing Hua University.	- Independent Director, eMemory Technology Inc. - Independent Director, AzureWave Technologies Inc. - Independent Director, Vanguard International Semiconductor Corp. - Independent Director, Global Unichip Corp.
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	- Independent Director, Global Unichip Corp. - Independent Director, Leadtrend Technology Corp. - Independent Director, Amazing Microelectronic Corp. - Professor, Electronics Engineering, National Chiao Tung University

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 the Company and Other Companies
						Shares	%	Shares	%	Shares	%	Shares	%		
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, TSMC	- Chairman, Motech Industries Inc. - Chairman / Director, Motech's affiliates - Director, Jinzhou Yangguang Energy Co.,Ltd.
Independent Director Ming-Je Tang (Note2)	R.O.C	Male	June 15, 2017	1	June 15, 2017	-	-	-	-	-	-	-	-	- Ph.D., Business Management, MIT, USA - Vice President, National Taiwan University - Visiting Associate Professor, Hong Kong University of Science and Technology - Associate Professor with tenure, University of Illinois at Urbana-Champaign - Professor and Chair of Industrial and Business Management Department, Chang Gung University	- Professor, National Taiwan University - Independent Director, Fubon Financial Holding Co., Ltd., and Fubon Insurance Co., Ltd. - Director, Vsense Limited

Note1: No member of the Board of Directors had a spouse or relative within two degrees of consanguinity serving as a manager or director at MediaTek.
Note2: The appointment of Director, Mr. Lih-Shyng Tsai, and Independent Director, Mr. Ming-Tze Tang, took effect on June 15, 2017.

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: 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 (Note)` 1	2	3	4	5	6	7	8	9	10	Number of other public companies concurrently serving as an independent director
Ming-Kai Tsai			√		√		√	√	√	√	√	√	√	0
Ching-Jiang Hsieh			√			√	√	√	√	√	√	√	√	0
Lih-Shyng Tsai			√		√	√	√	√	√	√	√	√	√	1
Cheng-Yaw Sun			√	√	√	√	√	√	√	√	√	√	√	0
Kenneth Kin	√		√	√	√	√	√	√	√	√	√	√	√	4
Chung-Yu Wu	√		√	√	√	√	√	√	√	√	√	√	√	3
Peng-Heng Chang			√	√	√	√	√	√	√	√	√	√	√	0
Ming-Tze Tang	√		√	√	√	√	√	√	√	√	√	√	√	2

Note: 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.

2.3. Remunerations Paid to Directors

2.3.1. Remunerations Paid to Directors (Note1)

Title Name	Remunerations Paid to Directors: Salary (A): The Company	Remunerations Paid to Directors: Salary (A): Consolidated Entities	Remunerations Paid to Directors: Pension (B): The Company	Remunerations Paid to Directors: Pension (B): Consolidated Entities	Remunerations Paid to Directors: Remunerations (C): The Company	Remunerations Paid to Directors: Remunerations (C): Consolidated Entities	Remunerations Paid to Directors: Allowances (D): The Company	Remunerations Paid to Directors: Allowances (D): Consolidated Entities	(A+B+C+D) as % of Net Income: The Company	(A+B+C+D) as % of Net Income: Consolidated Entities	Compensation Earned as Employee of the Company or of the Company's Affiliates: Salary, Bonus, etc. (E): The Company	Compensation Earned as Employee of the Company or of the Company's Affiliates: Salary, Bonus, etc. (E): Consolidated Entities	Compensation Earned as Employee of the Company or of the Company's Affiliates: Pension (F) (Note2): The Company	Compensation Earned as Employee of the Company or of the Company's Affiliates: Pension (F) (Note2): Consolidated Entities	Compensation Earned as Employee of the Company or of the Company's Affiliates: Employee Compensation (G): The Company: Cash	Compensation Earned as Employee of the Company or of the Company's Affiliates: Employee Compensation (G): The Company: Stock	Compensation Earned as Employee of the Company or of the Company's Affiliates: Employee Compensation (G): Consolidated Entities: Cash	Compensation Earned as Employee of the Company or of the Company's Affiliates: Employee Compensation (G): Consolidated Entities: Stock	(A+B+C+D+E+F+G) as % of Net Income (Note3): The Company	(A+B+C+D+E+F+G) as % of Net Income (Note3): Consolidated Entities	Other compensations from non-subsidiary affiliates
Chairman Ming-Kai Tsai Vice Chairman Ching-Jiang Hsieh Director Lih-Shyng Tsai (Note4) Director Cheng-Yaw Sun Director Kenneth Kin Independent Director Chung-Yu Wu Independent Director Peng-Heng Chang Independent Director Ming-Tze Tang (Note4)	4,000	4,000	-	-	43,799	43,799	390	390	0.20	0.20	257,150	257,150	171	171	-	-	-	-	1.26	1.26	None
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 2017: None.																					

Note1: The policies, standards, combinations, decision procedures and performance linkage of remunerations paid to directors: The compensations are determined in accordance with the MediaTek's Articles of Incorporation, which authorized the Board to resolve the compensation based on industry levels. If there is any profit for a specific fiscal year, the Company shall allocate at a maximum of 0.5% of the profit as remuneration to Directors, and the remuneration to Directors shall be paid in cash. In addition, according to the Company's "Rules for Distribution of Compensation to Director", the remuneration for Directors is based on their involvement in the Company's operations, actual number of days in office and the Company's profits. The Remuneration Committee regularly reviews Directors' performance evaluation and remuneration's policy, system, standards and structure, evaluate and determine remuneration for Directors and submit to the Board meetings for final approval.
Note2: Pensions funded/paid according to applicable law.
Note3: Remunerations of the Company and its consolidated entities paid to Directors in 2016, including their employee compensation, totaled NT$212,858 thousand, which was 0.90% of 2016 net profit.
Note4: The appointment of Director, Mr. Lih-Shyng Tsai, and Independent Director, Mr. Ming-Tze Tang, took effect on June 15, 2017.

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)	
	The Company	Consolidated Entities	The Company	Consolidated Entities
Less than NT$2 million	-	-	-	-
NT$2 million ~ $5 million	Lih-Shyng Tsai, Ming-Tze Tang		Ming-Tze Tang	
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	-	-	Lih-Shyng Tsai	
Above NT$100 million	-	-	Ming-Kai Tsai, Ching-Jiang Hsieh	
Total	8		8	

3. Management Team

3.1. Profiles of Key Managers

As of April 30, 2018 / 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 **Ming-Kai Tsai**	R.O.C.	Male	May 21, 1997	41,062,592	2.60%	45,552,145	2.88%	-	-	- Master, Electrical Engineering, University of Cincinnati, USA - President of the 2nd Business Group, UMC	- Chairman, Andes Technology Corp.	None		
Vice Chairman **Ching-Jiang Hsieh**	R.O.C.	Male	Sep. 15, 2005	4,052,648	0.26%	856,051	0.05%	-	-	- Master, Electrical Engineering, National Taiwan University - Engineer, Multimedia R&D Team, UMC	- Chairman / Director, MediaTek's affiliates	None		
CEO **Lih-Shyng Tsai (Note1)**	R.O.C.	Male	Jun. 1, 2017	31,500	0.00%	-	-	-	-	- Ph.D., Materials Science and Engineering, Cornell University - Chairman & CEO, Chunghwa Telecom Co. Ltd. - President & CEO, TSMC	- Independent Director, USI Corporation - Director, Lam Research Corporation	None		
President **Joe Chen**	R.O.C.	Male	Jul. 1, 2012	213,799	0.01%	30,414	0.00%	-	-	- Master, Electronics Engineering, National Chiao Tung University - Engineer, SiS Corp.	None	None		
Executive Vice President & Co-COO **Jeffrey Ju (Note2)**	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		
Senior Vice President **Kou-Hung Loh**	R.O.C.	Male	Jul. 1, 2006	-	-	-	-	-	-	- Ph.D., Electrical Engineering, Texas A&M University - CEO and founder of Silicon Bridge	- Director, MediaTek's affiliates	None		
Senior Vice President **Cheng-Te Chuang**	R.O.C.	Male	Apr. 7, 2009	941,192	0.06%	259,077	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 & Spokesman **David Ku**	R.O.C.	Male	Jan. 1, 2011	65,827	0.00%	-	-	-	-	- MBA, University of Illinois at Urbana Champaign - Vice President of JPMorgan Investment bank	- Chairman / Director, MediaTek's affiliates and invested companies	None		
Vice President **Johan Erik Lodenius (Note2)**	Sweden	Male	Dec. 20, 2012	-	-	-	-	-	-	- Bachelor, Electronics and Computer Technology, Lund Institute of Technology - Senior Vice President, Qualcomm Inc. - CEO, Coresonic AB	None	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 Jerry Yu	R.O.C.	Male	Feb. 16, 2015	19,527	0.00%	-	-	-	-	-Master, Electrical Engineering, National Taiwan University -Technical Director, Afreey Inc.	- Director, MediaTek's affiliates	None		
Vice President Rolly Chang	R.O.C.	Male	Aug. 1, 2015	20,909	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	71,969	0.00%	-	-	-	-	- Ph.D., Power Mechanical Engineering, National Tsing Hua University	- Chairman / Director, MediaTek's affiliates	None		
Vice President Jasper Yang	R.O.C.	Male	Jun. 1, 2016	19,525	0.00%	-	-	-	-	- Bachelor, Electrical Engineering, National Tsing Hua University - Shanghai Chief Representative, UMC	None	None		
Vice President & CHRO Sherry Lin	R.O.C.	Female	Jun. 1, 2016	18,223	0.00%	-	-	-	-	- Master, Industrial Relations and HRM, Rutgers University - HR Director, TSMC	None	None		
Vice President & General Counsel David Su	R.O.C.	Male	Nov. 1, 2016	16,487	0.00%	-	-	-	-	- 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		
Vice President SR Tsai (Note3)	R.O.C.	Male	Dec. 1, 2017	300,373	0.02%	13,910	0.00%	-	-	- Master, Mechanical Engineering, National Taiwan University - Section Chief, KTC	None	None		
Vice President HW Kao (Note3)	R.O.C.	Male	Dec. 1, 2017	17,713	0.00%	-	-	-	-	- Master, Electronics Engineering, National Chiao Tung University - Section Manager, ITRI	None	None		

Note1: Mr. Lih-Shyng Tsai was appointed as co-CEO on June 1, 2017 and CEO on February 1, 2018.
Note2: Executive Vice President & Co-COO, Mr, Jeffrey Ju, officially withdrew from his position on August 1, 2017, Vice President, Mr. Johan Erik Lodenius, officially withdrew from his position on January 21, 2017, and Vice President, Mr. Uming Ko, officially withdrew from his position on September 30, 2017
Note3: Mr. SR Tsai and Mr. HW Kao were appointed as Vice President on December 1, 2017.

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
							The Company (Note3)		Consolidated Entities				
	The Company	Consolidated Entities	The Company	Consolidated Entities	The Company	Consolidated Entities	Cash	Stock	Cash	Stock	The Company	Consolidated Entities	
Chairman – Ming-Kai Tsai	49,843	63,994	1,530	2,858	831,947	921,124	-	-	-	-	3.63	4.06	None
Vice Chairman – Ching-Jiang Hsieh													
CEO – Lih-Shyng Tsai (Note4)													
President – Joe Chen													
Executive Vice President & Co-COO – Jeffrey Ju (Note5)													
Senior Vice President – Kou-Hung Loh													
Senior Vice President – Cheng-Te Chuang													
Senior Vice President & CTO – Kevin Jou													
Senior Vice President & CFO & Spokesman – David Ku													
Vice President – Johan Erik Lodenius (Note5)													
Vice President – Jerry Yu													
Vice President – Rolly Chang													
Vice President – JC Hsu													
Vice President – Jasper Yang													
Vice President & CHRO– Sherry Lin													
Vice President & General Counsel – David Su													
Vice President – Uming Ko (Note5)													
Vice President – SR Tsai (Note6)													
Vice President – HW Kao (Note6)													

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. The Compensation Committee determines each manager's remuneration and submits to the Board meetings for final approval.

Note2: Pensions funded/paid according to applicable law.

Note3: Remunerations and bonus of the Company and its consolidated entities paid to key managers in 2016 were NT$673,264 thousand and NT$834,563 thousand respectively which were 2.84% and 3.52% of 2016 net income, respectively.

Note4: Mr. Lih-Shyng Tsai was appointed as co-CEO on June 1, 2017 and CEO on February 1, 2018.

Note5: Executive Vice President & Co-COO, Mr, Jeffrey Ju, officially withdrew from his position on August 1, 2017, Vice President, Mr. Johan Erik Lodenius, officially withdrew from his position on January 21, 2017, and Vice President, Mr. Uming Ko, officially withdrew from his position on September 30, 2017

Note6: Mr. SR Tsai and Mr. HW Kao were appointed as Vice President on December 1, 2017.

3.3. Key Managers Remunerations Scale

Remuneration scale for individual key managers	Compensation Paid to Key Managers	
	The Company	Consolidated Entities
Less than NT$2 million	Johan Erik Lodenius	
NT$2 million ~ $5 million	-	-
NT$5 million ~ $10 million	-	-
NT$10 million ~ $15 million	-	-
NT$15 million ~ $30 million	Uming Ko	
NT$30 million ~ $50 million	Jerry Yu, Rolly Chang, JC Hsu, Jasper Yang, Sherry Lin, David Su, SR Tsai, HW Kao, Jeffrey Ju	
NT$50 million ~ $100 million	Ming-Kai Tsai, Ching-Jiang Hsieh, Lih-Shyng Tsai, Joe Chen, Cheng-Te Chuang, Kuo-Hung Loh, David Ku, Kevin Jou	
Above NT$100 million	-	-
Total	19	

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 8 sessions in 2017. 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	8	0	100%	None
Vice Chairman: Ching-Jiang Hsieh	8	0	100%	None
Director: Lih-Shyng Tsai	3	0	100%	(Note)
Director: Cheng-Yaw Sun	8	0	100%	None
Director: Kenneth Kin	8	0	100%	None
Independent Director: Chung-Yu Wu	8	0	100%	None
Independent Director: Peng-Heng Chang	8	0	100%	None
Independent Director: Ming-Tze Tang	3	0	100%	(Note)

Note: The appointment of Director, Mr. Lih-Shyng Tsai, and Independent Director, Mr. Ming-Tze Tang, took effect on June 15, 2017.

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 10, 2017	The 13th meeting of the 7th Board	Matter of public acquisition of Airoha Technology Corp. Matter of subsidiary Hsu-Si Investment Corp. and funding Matter of participating in acquisition of subsidiary Hsu-Ta Investment Corp. to increase cash by NT$7.5 billion	None
Mar 22, 2017	The 14th meeting of the 7th Board	Matter of appointing new managers and explaining compensation Matter of request for approving issuance of restricted stock for employees under the 2016 Rules for Issuing Restricted Stock for Employees. Matter of 2016 board directors' compensation Matter of changing the Company's CPA Matter of Company's intention to terminate the agreement between Hsu-Chuang Investment Corp. and the Bureau of High Speed Rail (Ministry of Transportation and Communications) for establishing land rights	
Jul 31, 2017	The 17th meeting of the 7th Board	Matter of separating the Company's business in Bluetooth IoT products Matter of engaging independent expert to prepare opinion on reasonableness of stock swap ratio in the matter of separating the Company's business in Bluetooth IoT products	
Oct 31, 2017	The 18th meeting of the 7th Board	Matter of 2017 CPA compensation Matter of amending the Company's Audit Committee Organization Procedures Matter of amending the Company's Board Meeting Rules Matter of the Company's purchase of building	

b. Written or otherwise recorded resolutions on which an independent director had a dissenting opinion or qualified opinion: None.

B. Execution status for Article 206 of the Company Act regarding matters bearing on the personal interests of directors: the Company's Directors all avoided issues when there are conflicts of interests.

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". The Board approved "Board of Directors Self-Assessment of Performance". The Board Directors shall perform evaluation by self-assessment annually.

c. Information transparency improvement: the Company's Board previously approved "Procedures for Internal Material Information".

4.2. Operation of Audit Committee

4.2.1 Audit Committee Meeting

The Audit Committee held 8 sessions in 2017. 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	8	0	100%	None
Independent Director: Peng-Heng Chang	8	0	100%	None
Independent Director: Ming-Tze Tang	4	0	100%	(Note)

Note: The appointment of Independent Director, Mr. Ming-Tze Tang, took effect on June 15, 2017.

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 10, 2017	The 11th meeting of the 1st Committee	Matter of public acquisition of Airoha Technology Corp. Matter of subsidiary Hsu-Si Investment Corp. and funding Matter of participating in acquisition of subsidiary Hsu-Ta Investment Corp. to increase cash by NT$7.5 billion	None
Mar 22, 2017	The 12th meeting of the 1st Committee	2016 operating report and 2017 operating budget Changing the Company's CPA Matter of company's intention to terminate the agreement between Hsu-Chuang Investment Corp. and the Bureau of High Speed Rail (Ministry of Transportation and Communications) for establishing land rights	
Apr 28, 2017	The 13th meeting of the 1st Committee	Amending Operating Procedures for Acquisition and Disposal of Assets	
Jun 15, 2017	The 14th meeting of the 1st Committee	Matter of separating the operations of the Company's IoT business	
Jul 31, 2017	The 15th meeting of the 1st Committee	Matter of separating the Company's business in Bluetooth IoT products	
Oct 30, 2017	The 16th meeting of the 1st Committee	Matter of 2017 CPA compensation Matter of the Company's purchase of building	

b. Other resolution which was not approved by the Audit Committee but was approved by two thirds or more of all directors: None.

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			Reason for Non-implementation
	Yes	No	Summary Description	
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 established, via Board resolution, corporate governance best-practice principles. Under these principles, the Company has established a comprehensive corporate internal governance framework, and fairly treats shareholders while protecting 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 shareholdes' 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 Company's outstanding 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", 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 semiannual 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 rules for "Board of Directors Self-Assessment of Performance" and from 2016, all Board Directors annually assess the functioning of the Board. The Board's performance evaluation by self-assessment covers the following four major areas: 1. Level of participation in Company operations 2. Improvement of the quality of Board resolutions 3. Board composition and structure 4. Internal control Every year, after questionnaires are returned, the responsible unit for corporate governance will, in accordance with the aforementioned rules, conduct analysis and report the results to the Board, with an emphasis on any areas with room for improvement. According to the most recent (2017) Board performance evaluation: The Board's performance was graded as excellent (full score is 100; average score of 90 or above is excellent; 80 to 89 is good; 70 to 79 is passing; below 70 is needs improvement). Detailed information regarding the above evaluation were reported to the Board at the Board Meeting of January 31, 2018.	None
(4). Does the company regularly evaluate the independence of CPAs?	✓		At least once a year, the Company evaluates the independence and suitability of its CPA. The Company also evaluates the accounting firm with regard to its financial interests, funding and guarantees, commercial relations, family and personal relations, employment relations, rotation of CPAs, and non-audit services, and obtains a statement of independence issued by the accounting firm. The results of the most recent evaluations were reported to the Board on Mar. 22, 2017 and Mar. 23, 2018.	None

Assessment Item	Implementation Status			Reason for Non-implementation
	Yes	No	Summary Description	
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 General Counsel David Su as Board Secretary, the Legal & Intellectual Property Department under the General Counsel as the department responsible for corporate governance and business integrity, to safeguard shareholder rights and strengthen the Board's functioning. Primary duties are to provide the Board directors with information needed for executing their roles, conducting Board Meetings, Audit Committee Meetings, and Shareholder Meetings, and to assist the Board Directors with legal compliance. The General Counsel is an officer of the Company and a qualified attorney with over 3 years of experience in managing legal matters of a publically traded company. Implementation in 2017: 1. Conducted matters relating to Board Meetings and Shareholder Meetings 2. Recorded minutes of Board Meetings and Shareholder Meetings 3. Regularly conduct performance evaluation pursuant to the rules for "Board of Directors Self-Assessment of Performance" 4. Handle matters relating to company registration and change of company registration	None
5. Does the company establish a communication channel and build a designated section on its website for stakeholders (including but not limited to shareholders, employees, customers, suppliers, etc.), 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
6. Does the company appoint a professional shareholder service agency to deal with shareholder affairs?	✓		The Company has engaged CTBC Bank's agency department to handle matters relating to Shareholder Meetings.	None
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: http://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 3. The Company has established a Spokesperson policy. Spokesman: David Ku; Acting Spokesperson: Jessie Wang. 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.	None
(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)?	✓			None
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 (http://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.	None
9. The improvement status for the result of Corporate Governance Evaluation announced by Taiwan Stock Exchange For the 4th Corporate Governance Evaluation, the implementation status regarding below non-scoring item(s): Regularly conduct Board evaluation, and disclose evaluation results on the website or in the annual report. The Company conducts Board evaluation annually, and discloses Board evaluation standards (including content and criteria) in this year's annual report.				

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 / Title / Name	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	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	3

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

1. Not an employee of the Company or any of its affiliates.
2. 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.
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.
8. 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	2	100%	None
Member	Chung-Yu Wu	2	100%	None
Member	Ji-Ren Lee	2	100%	None

4.4.4 Other Required Notes for Remuneration Committee:

A. 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	Summary Description	
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 VI, Corporate Social Responsibility" for more details.	None
(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.	None
(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 & Spokesman, 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. In addition to regularly reporting annual execution results to the Board every year, the Company holds regular discussion meetings semiannually to report the Board about execution plans of the current year focusing on economic, social and environmental aspects, while review the implementation performance of the previous semi-year. Therefore, the Company can improve continually in order to achieve the highest principle of sustainable development.	None
(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. According to the Articles of Incorporation of the Company, if there is any profit for a specific fiscal year, the Company shall allocate no lower than 1% of profit of the current year is distributable as employees' compensation to align the Company's operational performance and employees' compensation. 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.	None
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.	None
(2). Does the company establish proper environmental management systems based on the characteristics of their industries?	✓		The Company has acquired ISO-14001 qualification and designated a person for system management as well as regular SGS review every year.	None
(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 VI, Corporate Social Responsibility" section in this report	None

Assessment Item	Implementation Status			Reason for Non-implementation
	Yes	No	Summary Description	
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.	None
(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 CHRO 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. The Company has acquired OHSAS-18001 qualification and designated a person for system management as well as regular SGS review every year.	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 to continuously enhance 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 http://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://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 has been verified by SGS Taiwan, an independent and credible third-party assurance company, according to the Type 1 medium assurance standard of AA1000 AS (2008) and GRI G4 Core. We have adequately communicated the evaluation results upon the completion of the assurance process and provided the Independent Assurance Report in our CSR report.				

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 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. Articles of Incorporation 2. Rules and Procedures of Shareholders' Meeting 3. Rules and Procedures of Board of Directors' Meeting 4. Rules for Election of Directors 5. Procedures Governing the Acquisition or Disposition of Assets 6. Operating Procedures of Endorsement and Guarantee 7. Operating Procedures of Outward Loans to Others 8. Procedures of Internal Material Information 9. Remuneration Committee Charter 10. Audit Committee Charter 11. Ethical Corporate Management Best Practice Principles 12. Corporate Social Responsibility Best Practice Principles 13. Corporate Governance Best Practice Principles Access Link: http://www.mediatek.com	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 Directors and Officers of the Company adhere to the core principle of integrity. If any matter involves a conflict of interest, the affected Director(s) or Officer(s) shall avoid such conflict and refrain from participating in resolutions in such matter.	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?	✓		For ethnical corporate management, the Company's Board meeting approved "Ethical Corporate Management Best Practice Principles" on October 30, 2015, which designated Human Resource Department and Legal & Intellectual Property Department to make policy and Audit Division to monitor execution results. The Company's "Ethical Corporate Management Best Practice Principles" is available on the Company website and a commitment of the Company's ethnical corporate management. It is promoted by Legal & Intellectual Property Department, which annually reports the implementation status to the Audit Committee and the Board. The Company regularly holds operational integrity-related educational training courses covering the topics of	None

Assessment Item	Implementation Status			Reason for Non-implementation
	Yes	No	Summary Description	
			misconduct management, intellectual property information management, insider trading prevention, trade secrete infringement prevention, internal and customer communication principles, etc. In 2017, 1,155 personnel received such training for an aggregate total of 2,301 hours.	
(3). Does the company establish policies to prevent conflicts of interest and provide appropriate communication channels, and implement it?	✓		The Company's internal rules covering business conduct and the conduct of Directors and Officers clearly define 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?	✓		Operating with integrity is the Company's core value and is regularly promoted throughout the Company.	None
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.	None
(2). Does the company establish standard operating procedures for confidential reporting on investigating accusation cases?	✓		The Company established the SOP and relevant confidentiality mechanisms.	None
(3). Does the company provide proper whistleblower protection?	✓		The Company established precautions in order to protect whistleblowers.	None
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.	None
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) Articles of Incorporation
(2) Rules and Procedures of Shareholders' Meeting
(3) Rules and Procedures of Board of Directors' Meeting
(4) Rules for Election of Directors
(5) Procedures Governing the Acquisition or Disposition of Assets
(6) Operating Procedures of Endorsement and Guarantee
(7) Operating Procedures of Outward Loans to Others
(8) Procedures of Internal Material Information
(9) Remuneration Committee Charter
(10) Audit Committee Charter
(11) Ethical Corporate Management Best Practice Principles
(12) Corporate Social Responsibility Best Practice Principles
(13) Corporate Governance Best Practice Principles

4.7.2 More detailed information on corporate governance guidelines and regulations:

Please refer to the Company's website at http://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	May 5, 2017	Taiwan Corporate Governance Association	Policies for monetary awards to key personnel – trends in rewarding high technology personnel and practical points	3
	Jun 15, 2017	Taiwan Corporate Governance Association	Insider Trading Culpability and Penalties – Analysis of Civil Cases-1	3
	Jun 15, 2017	Taiwan Corporate Governance Association	Insider Trading Culpability and Penalties – Analysis of Civil Cases-2	3
Vice Chairman Ching-Jiang Hsieh	Jun 15, 2017	Taiwan Corporate Governance Association	Insider Trading Culpability and Penalties – Analysis of Civil Cases-1	3
	Jun 15, 2017	Taiwan Corporate Governance Association	Insider Trading Culpability and Penalties – Analysis of Civil Cases-2	3
Director Lih-Shyng Tsai (Note)	Jun 15, 2017	Taiwan Corporate Governance Association	Insider Trading Culpability and Penalties – Analysis of Civil Cases-1	3
	Jun 15, 2017	Taiwan Corporate Governance Association	Insider Trading Culpability and Penalties – Analysis of Civil Cases-2	3
Director Cheng-Yaw Sun	Jun 15, 2017	Taiwan Corporate Governance Association	Insider Trading Culpability and Penalties – Analysis of Civil Cases-1	3
	Jun 15, 2017	Taiwan Corporate Governance Association	Insider Trading Culpability and Penalties – Analysis of Civil Cases-2	3
Director Kenneth Kin	Jun 15, 2017	Taiwan Corporate Governance Association	Insider Trading Culpability and Penalties – Analysis of Civil Cases-1	3
	Jun 15, 2017	Taiwan Corporate Governance Association	Insider Trading Culpability and Penalties – Analysis of Civil Cases-2	3
	Dec 12, 2017	Taiwan Corporate Governance Association	Cross-Strait M&A Trends and Practices	3
Independent Director Chung-Yu Wu	Jun 15, 2017	Taiwan Corporate Governance Association	Insider Trading Culpability and Penalties – Analysis of Civil Cases-1	3
	Jun 15, 2017	Taiwan Corporate Governance Association	Insider Trading Culpability and Penalties – Analysis of Civil Cases-2	3
	Jun 27, 2017	Taiwan Corporate Governance Association	Risk Management and Internal Control	3
	Aug 3, 2017	Taiwan Corporate Governance Association	Management of Information Security during Technological Development	3
	Aug 9, 2017	Taiwan Corporate Governance Association	Analysis of M&A Practices and Cases	3
	Nov 8, 2017	Taiwan Corporate Governance Association	M&A Strategies and Planning	3
	Nov 10, 2017	Taiwan Corporate Governance Association	How Directors May Supervise the Company to Effectuate Optimal Business Secret Risk Management and Strengthen Corporate Governance	3
Independent Director	Jun 15, 2017	Taiwan Corporate Governance Association	Insider Trading Culpability and Penalties – Analysis of Civil Cases-1	3

Title/Name	Date	Host by	Training / Speech title	Hours
Peng-Hen Chang	Jun 15, 2017	Taiwan Corporate Governance Association	Insider Trading Culpability and Penalties – Analysis of Civil Cases-2	3
Independent Director Ming-Tze Tang (Note)	Jun 15, 2017	Taiwan Corporate Governance Association	Insider Trading Culpability and Penalties – Analysis of Civil Cases-1	3
	Jun 15, 2017	Taiwan Corporate Governance Association	Insider Trading Culpability and Penalties – Analysis of Civil Cases-2	3
	Jul 1, 2017	Taiwan Academy of Banking and Finance	Strategic Logic and Innovative Thinking (act as speaker)	1
	Jul 15, 2017	Taiwan Academy of Banking and Finance	Longtail Platform Strategy Models and Case Studies (act as speaker)	1

Note: The appointment of Director, Mr. Lih-Shyng Tsai, and Independent Director, Mr. Ming-Tze Tang, took effect on June 15, 2017.

4.8.2 Key Management Profession Enhancement Status

Title/Name	Date	Host by	Training / Speech title	Hours
Senior Vice President & CFO & Spokesman David Ku	Nov 10, 2017	Accounting Research and Development Foundation	Major Changes to Economic and Tax Policies of the U.S. Government under Trump and How Taiwanese Businesses May Respond	3
	Nov 10, 2017	Accounting Research and Development Foundation	Analysis of Key Points on Practices, Current Status, and Legal Liability Regarding Supervision of Securities Trading in Taiwan and the U.S.	3
	Dec 12, 2017	The Allied Association for Science Park Industries	Establishing Systems for Allocating Production Overheads and Case Studies	6
Director, Internal Audit Perry Nien	Dec 7, 2017	The Institute of Internal Auditors- Chinese Taiwan	Experiences in Procurement Audit	6
	Dec 15, 2017	The Institute of Internal Auditors- Chinese Taiwan	Management of Legal Compliance Risks Faced by Enterprises	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 23rd, 2018

MediaTek Inc. has conducted internal audits in accordance with its Internal Control Regulations for the period ended December 31st, 2017, 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 23 2018 with all Directors in session under unanimous consent.

MediaTek Inc.

Ming-Kai Tsai
Chairman
Joe Chen
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 2017 Annual General Meeting on June 15, 2017 at International Convention Center, MediaTek in No. 1, Dusing 1st Rd., Hsinchu Science Park, Hsinchu, Taiwan. Among the meeting, the attended shareholders approved the following resolutions:

Major Resolutions	Implementation Status
Acknowledgement Items:	
1. Adoption of the 2016 business report and financial statements	Approved.
2. Adoption of the proposal for distribution of 2016 profits	Approved a cash dividend per share of NT$8, and allocation baseline date was July 14, 2017. Cash dividend payment date was completed by August 3, 2017.
Discussion Items:	
1. Discussion of cash distribution from capital reserve	Resolution passed – July 14, 2017 designated as allocation baseline date, and payments completed by August 3, 2017 (NT$1.5 per share)
2. Amendments to the Company's "Articles of Incorporation"	Resolution passed – obtained registration approval from Hsinchu Science Park Administration and announced on website on June 28, 2017
3. Amendments to the Company's "Procedures Governing the Acquisition or Disposition of Assets"	Resolution passed – Website announcement and adherence to amended procedures on July 4, 2017
4. Election of one Independent Director to fill the existing vacancy and of one Director to fill the additional board seat	Elected: Ming-Tze Tang (Independent Director) and Lih-Shyng Tsai (Director) – obtained registration approval from Hsinchu Science Park
5. Suspension of the non-competition restriction on the Company's Directors	Administration and issued website announcement on June 28, 2017) Resolution passed

4.11.2 Major Resolutions of Board Meetings

During the 2017 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
Jan 26, 2017	The 12th meeting of the 7th board	2016 Board performance evaluation report 2017 first quarter financial forecasts 2016 performance assessment of Company's key managers and 2017 compensation proposal pending approval
Feb 10, 2017	The 13th meeting of the 7th board	Matter of proceeding with public acquisition of Airoha Technology Corp. Matter of indirect subsidiary Hsu-Si Investment Corp. and funding Matter of participating in acquisition of subsidiary Hsu-Ta Investment Corp. to increase cash by NT$7.5 billion
Mar 22, 2017	The 14th meeting of the 7th board	Matter of appointing new managers and explaining compensation Matter of request for approving issuance of restricted stock for employees under the 2016 Rules for Issuing Restricted Stock for Employees Matter of Board Directors' compensation for 2016 Matter of 2017 shareholder general meeting's date, location, and agenda Elect a Director and an Independent Director Matter of nominating the Company's Directors Matter of location and timing for nominating 7th Board Director candidates Updating 2017 first quarter financial forecasts Updating 2016 fourth quarter financial forecasts Matter of 2016 employee compensation 2016 annual operations report and 2017 operating budget forecast and operations plan 2016 operating budget 2016 internal control statement and internal control self-assessment report Matter of amending internal control system Set capital reduction record date due to cancellation of portion of 2016 fourth quarter restricted stock awards Change the Company's CPA Assess the CPA's independence Suspend the non-competition restriction on management
Apr 28, 2017	The 15th meeting of the 7th board	2017 second quarter financial forecasts Matter of cancelling 2017 first quarter restricted stock awards Proposal of 2016 profit distribution and authorization to Chairman to set ex-dividend date Review Director candidates Suspend non-competition restriction on Directors Amend Operating Procedures for Acquisition and Disposal of Assets Amend Articles of Incorporation
Jun 1, 2017	The 16th meeting of the 7th board	Amend on-board dates of managerial personnel Suspend non-competition restriction on key managers
Jul 31, 2017	The17th meeting of the 7th board	2017 third quarter financial forecasts Cancellation of 2017 second quarter restricted stock awards Separation of Company's Bluetooth IoT business Matter of engaging independent expert to prepare opinion on reasonableness of stock swap ratio in the matter of separating the Company's business in Bluetooth IoT products Suspend non-competition restriction on management Matter of budget for construction of building Matter of management promotion
Oct 31, 2017	The 18th meeting of the 7th board	2017 fourth quarter financial forecasts 2017 CPA compensation 2018 audit plan Amend the Audit Committee Charter Amend Rules and Procedures of Board of Directors' Meeting Matter of purchasing building Cancellation of 2017 third quarter restricted stock awards Matter of appointing and changing management personnel
Nov 27, 2017	The 19th meeting of the 7th board	Update 2017 fourth quarter financial forecasts
Jan 31, 2018	The 20th meeting of the 7th board	Matter of disposal of assets and increasing capital of Huanfa subsidiary 2018 first quarter financial forecasts Matter of 2017 fourth quarter new common stock issuance for employee stock option Cancellation of 2017 fourth quarter restricted stock award 2017 performance evaluation of management and 2018 proposal for compensation pending approval Matter of changing job titles of management

Date	Meeting	Major Approvals
Mar 23, 2018	The 21st meeting of the 7th board	Matter of Director compensation 2018 general shareholder meeting date, location, and agenda Matter of electing the 8th Board (including Independent Directors) Matter of nominating Directors Matter of handling timing and nomination of Director candidates for the 8th Board Amend Operating Procedures for Endorsement and Guarantee 2017 business operating report 2018 operating plans and operating budget forecast Matter of 2017 employee compensation 2017 financial statement Assess CPA's independence 2017 internal control statement and internal control self-assessment report
Apr 27, 2018	The 22nd meeting of the 7th board	2018 second quarter financial forecasts Matter of merging with 100% subsidiary Matter of adjusting budget for construction of building Matter of 2018 first quarter new common stock issuance for employee stock option Cancellation of 2018 first quarter restricted stock awards Matter of issuing restricted stock for employees Matter of 2017 profit distribution Matter of cash distribution from capital reserve Review list of nominated Directors (including Independent Directors) Suspend non-competition restriction on directors

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 2017 to the Printing Date of this Report

Title	Name	Date of Appointment	Date of Termination	Reasons for Resignation or Dismissal
President	Ching-Jiang Hsieh	Sept. 15, 2005	Dec. 1, 2017	Position adjustment

Note: Because of an internal realignment, the position of Vice Chairman and President Ching-Jiang Hsieh has been adjusted to Vice Chairman as of Dec. 1, 2017, and Mr. Joe Chen will serve as President.

5. Information Regarding the Company's Independent Auditors

5.1. Auditor Information

Accounting Firm	Name of CPA		Period Covered by CPA's Audit	Remarks
Ernst & Young	Shou-Pin Kuo	Wen-Fun Fuh	2017	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					Period Covered by CPA's Audit	Remarks
			System of Design	Company Registration	Human Resource	Others	Subtotal		
Ernst & Young	Shou-Pin Kuo Wen-Fun Fuh	13,050	-	342	-	601	943	2017	(Note)

Note: non-audit fee – other includes financial and tax consulting services.

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

<table>
<tr><th>Replacement Date</th><th colspan="4">March 22, 2017</th></tr>
<tr><td>Replacement reasons and explanations</td><td colspan="4">Accounting firm's job rotation in accordance with relevant regulations</td></tr>
<tr><td rowspan="3">Describe whether the Company terminated or the CPA did not accept the appointment</td><td colspan="2">Parties / Status</td><td>CPA</td><td>The Company</td></tr>
<tr><td colspan="2">Termination of appointment</td><td>Not applicable</td><td>Not applicable</td></tr>
<tr><td colspan="2">No longer accepted (continued) appointment</td><td>Not applicable</td><td>Not applicable</td></tr>
<tr><td>Other issues (except for unqualified issues) in the audit reports within the last two years</td><td colspan="4">None</td></tr>
<tr><td rowspan="6">Differences with the company</td><td rowspan="4">Yes</td><td></td><td colspan="2">Accounting principles or practices</td></tr>
<tr><td></td><td colspan="2">Disclosure of Financial Statements</td></tr>
<tr><td></td><td colspan="2">Audit scope or steps</td></tr>
<tr><td></td><td colspan="2">Others</td></tr>
<tr><td>None</td><td>V</td><td colspan="2"></td></tr>
<tr><td colspan="4">Remarks/specify details: Not applicable.</td></tr>
<tr><td>Other Revealed Matters</td><td colspan="4">None</td></tr>
</table>

5.3.2 Regarding the successor CPA

Name of accounting firm	Ernst & Young
Name of CPA	Shao-Pin Kuo, Wen-Fun Fuh
Date of appointment	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
Succeeding CPA's written opinion of disagreement toward the former CPA	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 2017:

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 Company and the accounting firm have mutual financing or mutual guarantee actions?	None	Yes
3. 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
4. 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
5. Do the CPAs serve as the Company's auditors for more than seven years? CPAs are able to return to serve as the Company's auditors after rotating to another firms for two years.	None	Yes
6. Do the CPAs provide the Company with non-audit services which are likely to influence their audit service?	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	2017		Jan. 1 to April 30, 2018	
	Net Change in Shareholding	Net Change in Shares Pledged	Net Change in Shareholding	Net Change in Shares Pledged
Chairman Ming-Kai Tsai	56,405	-	-	-
Vice Chairman Ching-Jiang Hsieh	47,727	-	-	-
Director & CEO Lih-Shyng Tsai (Note1)	31,500	-	-	-
Director Cheng-Yaw Sun	-	-	-	-
Director Kenneth Kin	-	-	-	-
Independent Director Chung-Yu Wu	-	-	-	-
Independent Director Peng-Heng Chang	-	-	-	-
Independent Director Ming-Tze Tang (Note2)	-	-	-	-
President Joe Chen	36,012	-	-	-
Executive Vice President & Co-COO Jeffrey Ju (Note3)	-	-	-	-
Senior Vice President Kou-Hung Loh	-	-	-	-
Senior Vice President Cheng-Te Chuang	(33,015)	-	(60,000)	-
Senior Vice President & CTO Kevin Jou	-	-	-	-
Senior Vice President & CFO & Spokesman David Ku	27,985	-	-	-
Vice President Johan Erik Lodenius (Note4)	-	-	-	-
Vice President Jerry Yu	19,525	-	-	-
Vice President Rolly Chang	20,826	-	-	-
Vice President JC Hsu	13,223	-	-	-
Vice President Jasper Yang	19,525	-	-	-
Vice President & CHRO Sherry Lin	18,223	-	-	-
Vice President & General Counsel David Su	16,487	-	-	-
Vice President Uming Ko (Note5)	-	-	-	-
Vice President SR Tsai (Note6)	-	-	-	-
Vice President HW Kao (Note6)	-	-	-	-

Note1: Mr. Lih-Shyng Tsai was appointed as co-CEO on June 1, 2017 and CEO on February 1, 2018 so his share information disclosure is from June 1, 2017.
Note2: Mr. Ming-Tze Tang was appointed as Independent Director on June 15, 2017 so his share information disclosure is from then on.
Note3: The resignation of Executive Vice President & Co-COO, Jeffrey Ju, took effect on August 1, 2017 and no longer has to disclose his share information since then.
Note4: The resignation of Vice President, Johan Erik Lodenius, took effect on January 21, 2017 and no longer has to disclose his share information since then.
Note5: The resignation of Vice President, Uming Ko, took effect on September 30, 2017 and no longer has to disclose his share information since then.
Note6: Mr. SR Tsai and Mr. HW Kao were appointed as Vice President on December 1, 2017 so their share information disclosure is from then on.

Stock Trade with Related Party: None.

Stock Pledge with Related Party: None.

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

As of April 17, 2018. Unit: Share / %

Top 10 Shareholders	Shareholding		Shareholding under Spouse and Minor		Shareholding under 3rd Party		Top 10 Shareholders Who are Related Parties to Each Other	
	Shares	Proportion	Shares	Proportion	Shares	Proportion	Name	Relationship
Government of Singapore	71,364,657	4.51%	-	-	-	-	-	-
Cathay Life Insurance	46,925,168	2.97%	-	-	-	-	-	-
Chui-Hsing Lee	45,552,145	2.88%	41,062,592	2.60%	-	-	Ming-Kai Tsai	Spouse
Ming-Kai Tsai	41,062,592	2.60%	45,552,145	2.88%	-	-	Chui-Hsing Lee	Spouse
Jyh-Jer Cho	29,134,222	1.84%	10,698,414	0.68%	-	-	-	-
New Labor Pension Fund Management Committee	27,880,540	1.76%	-	-	-	-	-	-
Vanguard Emerging Markets Stock Index Fund, a series of Vanguard International Equity Index Funds	24,175,764	1.53%	-	-	-	-	-	-
JPMorgan Chase Bank N.A. Taipei Branch in custody for Saudi Arabian Monetary Agency	23,193,320	1.47%	-	-	-	-	-	-
MAS - GIC Private Limited	21,928,561	1.39%	-	-	-	-	-	-
Tin-Ren Liu	20,591,763	1.30%	3,519,879	0.22%	-	-	-	-

8. Long-Term Investment Ownership

As of December 31, 2017. Unit: Share / %

Long-Term Investments	Investments by the Company (1)		Investments Directly or Indirectly Controlled by Directors and Managers of the Company (2)		Total Investment (1) + (2)	
	Shares	Portion	Shares	Portion	Shares	Portion
Hsu-Ta Investment Corp.	3,958,981,889	100%	-	-	3,958,981,889	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%
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.	80,828,122	100%	-	-	82,828,122	100%
Airoha Technology Corp.	4,106,000	7%	56,986,908	93%	61,092,908	100%

IV. Capital and Shares

1. Capital and Shares

1.1. Capitalization

As of April 30, 2018, Unit: shares / NT$

Month/ Year	Issue Price (per share)	Authorized Capital		Paid-in Capital		Remarks		
		Shares	Amount	Shares	Amount	Sources of Capital (shares)	Capital Increase by Assets Other than Cash	Date of Approval & Approval Document No.
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	-	May 11, 2017 Yuan-Shang-Tze No. 1060012610
Jul 2017	10	2,000,000,000	20,000,000,000	1,581,903,381	15,819,033,810	Restricted stock award issuance: 300,000	-	Jul .25, 2017 Yuan-Shang-Tze No. 1060020246
Jul 2017	10	2,000,000,000	20,000,000,000	1,581,879,704	15,818,797,040	Restricted stock award cancellation: 23,677	-	Aug 15, 2017 Yuan-Shang-Tze No. 1060022473
Oct 2017	10	2,000,000,000	20,000,000,000	1,581,459,283	15,814,592,830	Restricted stock award cancellation: 420,421	-	Nov 10, 2017 Yuan-Shang-Tze No. 1060030951
Jan 2018	10	2,000,000,000	20,000,000,000	1,581,437,115	15,814,371,150	Restricted stock award cancellation: 45,310 Employee stock options exercised: 23,142	-	Feb 22, 2018 Yuan-Shang-Tze No. 1070006008
Apr 2018	10	2,000,000,000	20,000,000,000	1,579,269,032	15,792,690,320	Restricted stock award cancellation: 2,185,716 Employee stock options exercised: 17,633	-	Currently under amendment registration

As of April 30, 2018; Unit: shares

Type of Stock	Authorized Capital			Remark
	Outstanding	Un-Issued	Total	
Common Stock	1,579,269,032	420,730,968	2,000,000,000	Listed on TSE

Shelf Registration: None.

1.2. Composition of Shareholders

As of April 17, 2018; Unit: shares / %

Type of Shareholders	Government Agencies	Financial Institutions	Other Juridical Persons	Foreign Institutions & Persons	Individuals	Total
Number of Shareholders	1	76	536	1,518	69,898	72,029
Shareholding	2	119,662,150	136,139,894	951,787,044	373,869,615	1,581,458,705
Holding Percentage	0.00%	7.57%	8.61%	60.18%	23.64%	100.00%

1.3. Distribution of Shareholding

1.3.1 Distribution of Common Stock

As of April 17, 2018, Unit: shares / %

Common Share Shareholder Ownership	Number of Shareholders	Ownership	Ownership
1 ~ 999	28,470	3,751,316	0.24%
1,000 ~ 5,000	35,498	63,265,135	3.99%
5,001 ~ 10,000	3,613	26,558,016	1.68%
10,001 ~ 15,000	1,151	14,164,311	0.90%
15,001 ~ 20,000	630	11,205,084	0.71%
20,001 ~ 30,000	696	17,264,899	1.09%
30,001 ~ 40,000	289	10,056,059	0.64%
40,001 ~ 50,000	216	9,785,321	0.62%
50,001 ~ 100,000	492	35,356,983	2.24%
100,001 ~ 200,000	315	44,619,722	2.82%
200,001 ~ 400,000	222	61,526,694	3.89%
400,001 ~ 600,000	103	49,934,350	3.16%
600,001 ~ 800,000	65	45,473,541	2.88%
800,001 ~ 1,000,000	43	38,638,614	2.44%
Over 1,000,001	226	1,149,858,660	72.70%
Total	72,029	1,581,458,705	100.00%

1.3.2 Distribution of Preferred Stock: Not Applicable.

1.4. Major Shareholders

As of April 17, 2018; Unit: shares / %

Top 10 Shareholders	Total Shares Owned	Ownership (%)
Government of Singapore	71,364,657	4.51%
Cathay Life Insurance	46,925,168	2.97%
Chui-Hsing Lee	45,552,145	2.88%
Ming-Kai Tsai	41,062,592	2.60%
Jyh-Jer Cho	29,134,222	1.84%
New Labor Pension Fund Management Committee	27,880,540	1.76%
Vanguard Emerging Markets Stock Index Fund, a series of Vanguard International Equity Index Funds	24,175,764	1.53%
JPMorgan Chase Bank N.A. Taipei Branch in custody for Saudi Arabian Monetary Agency	23,193,320	1.47%
MAS - GIC Private Limited	21,928,561	1.39%
Tin-Ren Liu	20,591,763	1.30%

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

Unit: NT$ / Shares

Item			2016 (Distributed in 2017)	2017 (Distributed in 2018)	Jan. 1 ~ Mar. 31, 2018
Market Price Per Share (Note1)	Highest		265.0	350.5	348.0
	Lowest		192.0	203.0	270.0
	Average		230.9	259.8	310.6
Book Value Per Share	Before Distribution		155.48	165.10	173.23
	After Distribution		147.45	*	*
Earnings Per Share	Weighted Average Shares		1,563,789,601	1,564,139,064	1,564,899,138
	EPS	Not-Adjusted	15.16	15.56	1.69
		Adjusted	15.16	*	**
Dividends Per Share	Cash Dividends		9.5	*	**
	Stock Dividend	Earning Distribution	-	*	**
		Capital Distribution	-	*	**
	Accumulated Undistributed Dividend		-	-	**
Return on Investment	Price/Earnings Ratio (Note2)		15.23	16.70	**
	Price/Dividend Ratio (Note3)		24.31	*	**
	Cash Dividend Yield (Note4)		4.11%	*	**

* : 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 several factors into consideration 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 2017 Profits (Approved by the Board and subject to Shareholders' approval)

The Board adopted a proposal for 2017 profit distribution as follows:
Cash dividends to common shareholders from retained earnings is NT$11,844,548 thousand and cash distributed from additional paid-in capital in capital surplus to common shareholders is NT$3,948,182 thousand, which totals NT$15,792,730, or NT$10 per share of cash to common shareholder. 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 2017 Share Dividends to Operating Performance and EPS

Not applicable.

1.8. Employees' Compensation and Remuneration to Directors

1.8.1 Employees' Compensation and Remuneration to Directors 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 2017 Employees' Compensation and Remuneration to Directors

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 23, 2018 to distribute employees' compensation and remuneration to directors, respectively. The details of discrepancy between the aforementioned approved amounts and the estimated amounts changed against earnings in 2017 are as follows.

Unit: shares / NT$ thousands

Items	Board resolution	Estimate	Difference	Reason of difference
Employee Compensation – Cash	298,331	298,331	-	-
Remuneration to Directors & Supervisors	43,799	40,275	3,524	(Note1)

Note1: 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 the Board of Directors' approval of the distribution plan at the Board meeting.
Note2: Other than the aforementioned employees' compensation of NT$298,331 thousand, the Company also expects to distribute employee bonus of NT$5,668,286 thousand.

1.8.3 Earnings Retained in Previous Period (2016) Allocated as Employee Compensation and Directors Remuneration

Unit: shares / NT$ thousands

Items	AGM resolution	Estimate	Difference	Shares	Share price (NT$)	Reason of difference
Employee Compensation – Cash	309,130	309,130	-	-	-	-
Remuneration to Directors & Supervisors	42,661	41,733	928	-	-	(Note)

Note: The difference was mainly because different calculation basis. The Board has approved that the difference shall be accounted as "changes in accounting estimations" and booked in 2017.

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, 2018 / Unit: shares and NT$ thousands

Employee Stock Options Granted	1st Grant	2nd Grant	3rd Grant	4th 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	0.07%	0.10%	0.09%	0.10%
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	0	402,358	487,484	616,885
Adjusted Exercise Price Per Share (NT$)	355.5	342.1	426.5	402.0
Percentage of Shares Unexercised to Outstanding Common Shares	0.00%	0.03%	0.03%	0.04%
Impact to Shareholders' Equity	Dilution to shareholder's equity is limited			

Employee Stock Options Granted	5th Grant	6th Grant	15th Grant	16th 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%	0.13%	0.09%	0.09%
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	375,659	82,131	0
Value of Shares Exercised (NT$)	375	104,158	23,518	0
Shares Unexercised	8,134	1,027,553	815,817	1,044,117
Adjusted Exercise Price Per Share (NT$)	374.4	275.5	284.8	368.0
Percentage of Shares Unexercised to Outstanding Common Shares	0.00%	0.06%	0.05%	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, 2018 / Unit: shares and 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 Douglas Remington Henry Vickers James K Farley John Finbarr Moynihan John Lee Jonathan Strange Russell Mestechkin Stacy Ho Vincent Del Vecchio	841,726	0.05%	84,195	338.1	28,467	0.01%	757,531	344.9	261,280	0.05%

Note1: The Company's managers are not grated 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 February 22, 2018.

6. Status of New Employees Restricted Stock Issuance

6.1. Issuance of New Restricted Employee Shares

As of April 30, 2018

Type of New Restricted Employee Shares	1st Grant	2nd Grant
Date of Effective Registration	Aug. 19, 2016	
Issue date	Sep. 6, 2016	Jul. 17, 2017
Number of New Restricted Employee Shares Issued	10,528,505	300,000
Issued Price (NT$)	None	
New Restricted Employee Shares as a Percentage of Shares Issued	0.67%	0.02%
Vesting Conditions of New Restricted Employee Shares	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. 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 the Company's audited, annual consolidated financial statements for the Company's fiscal year ending in the	

<table>
<tr><th>Type of New Restricted Employee Shares</th><th>1st Grant</th><th>2nd Grant</th></tr>
<tr><td></td><td colspan="2">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 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.
<table><tr><th>Company's Operation Objectives</th><th>Revenue (NT$ billions)</th><th>Gross Margin</th><th>Operating Margin</th><th>ROE</th></tr><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></table></td></tr>
<tr><td>Restricted Rights of New Restricted Employee Shares</td><td colspan="2">1. 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.
2. 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.
3. During the besting 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.
4. 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.</td></tr>
<tr><td>Custody Status of New Restricted Employee Shares</td><td colspan="2">1. 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.
2. 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.</td></tr>
<tr><td>Measures to be Taken When Vesting Conditions are not Met</td><td colspan="2">1.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.
2. 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.</td></tr>
<tr><td>Number of New Restricted Employee Shares that have been Redeemed or Bought Back</td><td>3,107,434</td><td>76,500</td></tr>
<tr><td>Number of Released New Restricted Employee Shares</td><td>1,049,919</td><td>31,500</td></tr>
<tr><td>Number of Unreleased New Restricted Shares</td><td>6,371,152</td><td>192,000</td></tr>
<tr><td>Ratio of Unreleased New Restricted Shares to Total Issued Shares (%)</td><td>0.40%</td><td>0.01%</td></tr>
<tr><td>Impact on possible dilution of shareholdings</td><td colspan="2">Dilution to original shareholders' holding is limited</td></tr>
</table>

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

As of April 30, 2018

	Title	Name	No. of New Restricted Shares	New Restricted Shares as a Percentage of Shares Issued (Note)	Released				Unreleased			
					No. of Shares	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)	Unreleased Restricted Shares as a Percentage of Shares Issued (Note)
Manager and employee	Chairman	Ming-Kai Tsai	3,711,867	0.23%	518,310	0	0	0.03%	3,193,557	0	0	0.20%
	Vice Chairman	Ching-Jiang Hsieh										
	CEO	Lih-Shyng Tsai										
	President	Joe Chen										
	Senior Vice President	Cheng-Te Chuang										
	Senior Vice President & CFO & Spokesman	David Ku										
	Vice President	Jerry Yu										
	Vice President	Rolly Chang										
	Vice President	JC Hsu										
	Vice President	Jasper Yang										
	Vice President & CHRO	Sherry Lin										
	Vice President & General Counsel	David Su										
	Vice President	SR Tsai										
	Vice President	HW Kao										
	Employee	Ching San Wu										
	Employee	TL Lee										
	Employee	Alan Hsu										
	Employee	Ryan Chen										
	Employee	Alex Chen										
	Employee	PC Tseng										
	Employee	SA Huang										
	Employee	HC Hwang										
	Employee	JS Pan										
	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 February 22, 2018.

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 the Company

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 (2017)

Product Category	Multimedia Chipsets	Others (Note)
Revenue Mix	99.17%	0.83%

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

1.1.3 Products Currently Offered by the Company

A. Mobile communication chipsets;
B. Tablet chipsets;
C. Bluetooth chips;
D. Wireless LAN (WLAN) chips;
E. Global Positioning Satellite (GPS) chips;
F. Near Field Communication (NFC) 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 SoCs;
E. Next generation low-power smart home connectivity chips;
F. Next generation highly integrated Ultra HD, 4K120Hz smart TV chips;
G. Next generation passive optical network (xPON) chipsets;
H. Next generation gigabit digital subscriber line (VDSL 35B) chipsets;
I. Next generation ten megabyte NBASE-T Ethernet physical chipsets; and

J. 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.

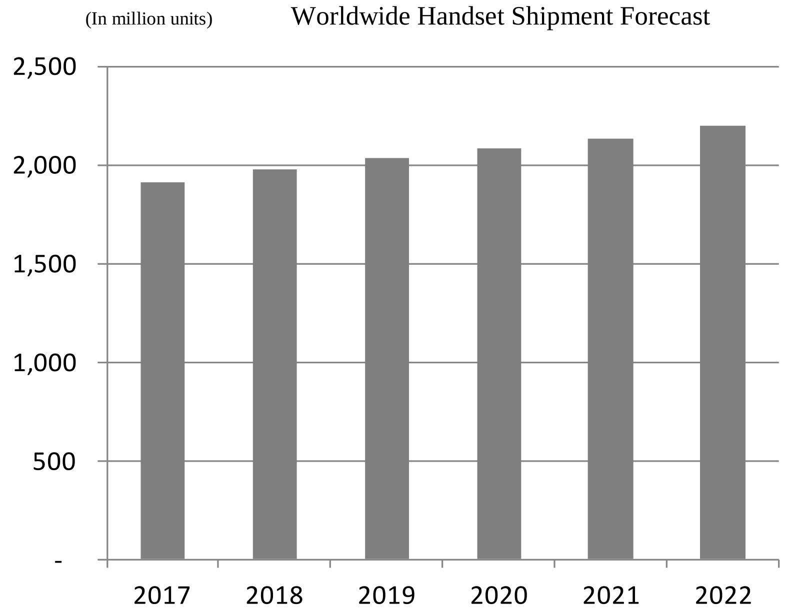
The major business of an IC design company is to design and sell semiconductor devices, or to design products based on customers' requirements. IC design is the upstream of the industry value chain, while other players in the backend of supply chain, including photo mask providers, wafer foundries, packaging 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

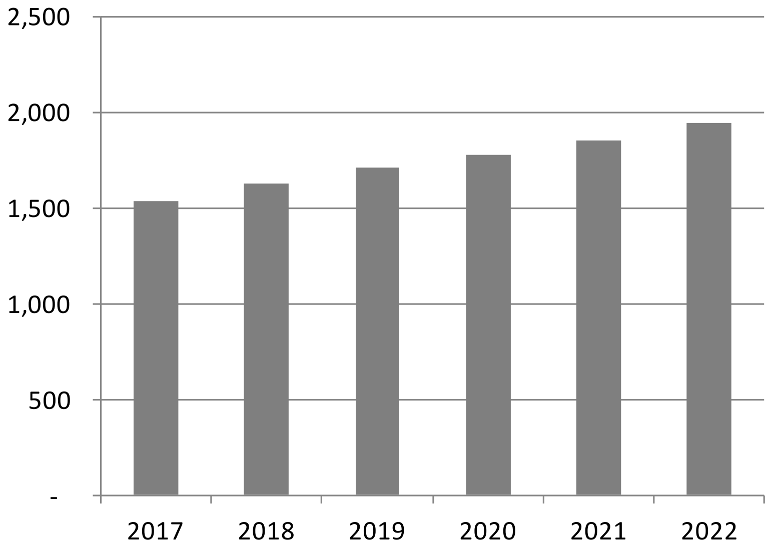
A. Wireless Communications Products

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 1.9 billion units in 2017 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 2017 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 and automotive electronics are important applications for wireless communications, concurrently driving the growth of wireless communication industry.



Source: Strategy Analytics, December 2017

(In million units) Worldwide Smartphone Shipment Forecast



Source: Strategy Analytics, December 2017

Global communication technologies continue to evolve and upgrade. 4G networks become mature in developed markets as well as Mainland China. In emerging markets, 4G networks has also become more popular. Coupled 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, augmented/virtual reality, etc. and expect these functions can be supported by mainstream phones. In order to meet consumers' need and support more applications, the specifications and features of smartphones and tablets continue to be upgraded such as AI function integration to enhance user experience, CPUs with higher performance and lower power consumption and more comprehensive connectivity technologies. For example, the emergence of dual 4G LTE SIM with dual VoLTE/ViLTE support can provide a consistent user experience to dual SIM users. These more comprehensive and optimized functions bring up the emergence of many end devices. Manufacturers launch a variety of products 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 voice assistant devices, smart home appliances, car fleet management, sharing bikes, smart meters, etc. These new devices further drive market demand for wireless communication. Looking forward, the emergence of low power wide area (LPWA) technologies such as NB-IoT will bring up broader IoT applications, and the technologies are also one of the Company'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, the Company establishes partnerships with worldwide operators and distribution channels to aggressively expand global market, upgrade 4G technologies and develop the next generation mobile communication technologies such as 5G and NB-IoT to make our product portfolio more comprehensive. For feature phones, the Company continues our efforts in integrating more features into products to achieve a higher level of customization and differentiation for customers. On the tablet front, the Company 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, the Company will strengthen product competitiveness by high-speed transmission enhancement and integration with high-performance processors. Also, the Company will continue to expand to other consumer electronic platforms such as AI voice assistant devices, smart wearables, smart home appliances, sharing bikes, game consoles, TVs, 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. Coupled with the price of panels remaining high and that of memory growing sequentially, TV manufacturers have more tendency to ship large-size TVs. 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, which strengthen UHD TV sales momentum. OLED panel‘s increasing yield rate and decreasing manufacturing costs bring up tier-one brands' OLED TV shipment sequentially.

The Company leads the industry by launching multi-core smart TV SoCs and supporting coding and decoding specifications for UHD TVs. Meanwhile, the Company cooperates with Google on Android TVs, which have been adopted by various international brands. Thus, the Company can maintain our market-leading position.

C. Digital Consumer Products

Content-rich online video and audio streaming services gradually replace video services by traditional DVD players. Along with the popularity of OTT Boxes and smart TV, consumers are changing their ways of enjoying movies. The Company's Blu-ray chipsets can support Internet access and online streaming and our high-end products also can support 4K and HDR. As a result, we can maintain a certain amount of shipments in the declining DVD player market.

D. Optical Storage Products

The PC industry changes rapidly. The emergence of optical disc-free ultra-thin notebook and tablets 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. The Company maintains a high market share by enhancing our core competitiveness and customer services.

E. Broadband Networking Products

Global broadband industry continues to grow, thanks to the increasing number of broadband users. According to research firms, at the end of fourth quarter 2017, there are more than 840 million global broadband users, which implies a steady growth rate of 5%. Among them, more than 300 million users are in Mainland China, whose mainstream technology is xPON, which accounts for 80% of total China broadband market. 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 rapid xPON development in China with tens of millions of installation has lowered the equipment cost of xPON. In recent years, the growth of PON in export markets has been heating up, becoming next market growth momentum. Furthermore, FTTH is the foundation for 5G mobile communication technologies to meet this future technologies' high throughput requirements.

F. Analog Products

Nowadays, with digital electronic system becoming 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 transmission between users and machines. As a result, the applications of analog ICs are very broad, including computers and their peripheral applications, communications, automotive electronics, 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

The Company's R&D spending in 2017 was NT$57,170,776 thousand, and from January 1st 2018 to the printing date of this annual report, the R&D spending was NT$17,422,826 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. Keep our finger on the pulse of market trend and customer need, continue to develop highly competitive new products, and adopt more advanced process/more optimized circuit design architecture to introduce high price-performance ratio mainstream products to stimulate market demand.
B. Combine newly-acquired companies' product offerings with existing platform advantages to provide customers with total solutions. Deeply understand and serve customers, and facilitate customers to time-to-market to seize market opportunities.
C. Enhance existing long-term partnerships with customers 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 partners 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 relationship cooperation with world-class customers and partners to develop various business opportunities.
B. Continue to develop innovative products and maintain a market-leading position in different markets. Continue to enhance product competitiveness and profitability through new product developments, product design optimization, cost control, etc.
C. Continue to work closely with the supply chain and co-develop more cost-effective solutions.
D. Recruit and retain global talents with different expertise for future products and market development. Establish comprehensive internal training systems to share knowledge and experiences.
E. Establish comprehensive global management systems to ensure effective internal operation efficiency and external communications. Maintain good relationship with capital markets and seek investment targets for business expansion.

2. Market, Production, and Sales Outlook

2.1. Market Analyst

2.1.1 Major Markets

Region	2017	
	Sales (NT$ thousands)	Percentage
Export sales	214,151,943	89.90%
Domestic sales	24,064,375	10.10%
Total	238,216,318	100%

2.1.2 Market Share

According to a report Gartner published in December 2017, worldwide semiconductor market revenue was US$419.7 billion in 2017；the Company's market share was 1.9% and ranked No.13 worldwide.

2.1.3 Major Markets

A. Wireless Communications Products

Thanks to the popularity of 4G network as well as the initial development of 5G technologies, wireless communication industry is expected to continue to grow with smartphones as the mainstream product. In addition, customers pay more attention to product functionality, 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

OLED TV becomes mainstream and has high requirements on picture quality and brightness. Coupled with the maturity of HDR technologies, users can enjoy high contrast media entertainment. With smart TV functions, users can surf the Internet, watch video on demand, install applications or games and voice search as well as control TVs by smart devices to enhance user experience.

C. Digital Consumer Products

The Company sustains our leading positions in DVD and Blu-ray market. For Blu-ray DVD player market, the popularity of online video/audio streaming services provide consumers more sources of high definition content choices beyond traditional disc rental. Blu-ray streaming players 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 recent years. The Company expects to maintain the leading position by continuously introducing next generation Ultra HD products as well as establishing long-term relationships with major electronic consumer companies.

D. Optical Storage Products

The Company 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. The Company with complete product portfolio is committed to maintaining a close relationship with customers and thus maintains our market-leading position.

E. Broadband Networking

Mainland China actively promotes FTTH technology, which results in fast adoption of FTTH. MediaTek xPON solutions passed China major three operators and provinces drop test and started to deliver with increasing sale.

Apart from share gains in China market, the Company is expanding in emerging markets in 2017, which is expected become our next growth driver.
In the VDSL2 market, after the Company made a breakthrough in overseas telecommunication operators in 2017, the latest generation of integrated VDSL2 terminal solutions has succeeded in winning procurement projects, which boosted our shipments and contributed strong growth momentum in emerging markets. Going forward, we will expand our exposure to East and South Europe market.

F. Analog Products

According to IC Insights, global analog ICs will carry the highest CAGR of 6.6% among all ICs between 2017 and 2022. Specifically, power management IC growth rate is estimated to be 8%. These estimates show that analog IC market has been growing steadily. The Company will continue to work with Taiwan foundry vendors and leverage our advantages from accumulated experiences in analog IC design to expand business in the industry.

2.1.4 Competitive Advantage

A. Outstanding Team

The Company's management team has been working together in the multimedia industry for many 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 the Company 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. The Company has a large pool of talented IC and system designers. Through their joint efforts, the Company has been able to launch competitive SoC products every year.

2.1.5 Favorable Developments, Unfavorable Factors and Countermeasures

<u>Favorable Developments</u>

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 replacement cycle and growth of relevant semiconductor industries. The Company 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. The Company is able to leverage and integrate wireless communication technologies with solid multimedia foundations and other the Company's products to shorten our customers' design cycle by providing highly-integrated total solutions.
Additionally, the Company has aggressively invested in 4G technologies upgrade and 5G technologies development, continuously meeting market demand for mobile networks upgrade. It is expected that 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

OLED TV with high requirements on picture quality and brightness is gaining popularity. Coupled with more mature HDR technologies, users are able 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 leverage smart devices to control TVs to enhance user experience.

The Company 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 90% of market share in 2017. Overall wired broadband market continues to grow steadily. The Company has complete product portfolio of xPON and VDSL across the board and is able to provide customers with the most comprehensive and competitive products.

D. Analog Products Demand to Continue to Grow

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

<u>Unfavorable Factors and Countermeasures</u>

The IT industry moves at a fast pace and new technology may emerge at any time. Coupled with relatively short product life cycle, pricing pressures are always there.

In the extremely competitive technology industry, the Company 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, The Company also works proactively on next generation products. The Company 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

The Company'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 IoT devices. Key product applications are listed below:

A. Wireless Communication Products

The Company'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/ HSUPA/ TD-SCDMA feature phones. Peripheral chips such as Bluetooth, WLAN, GPS, NFC and wireless charging are mainly used in mobile phones, and can also be used in other applications such as routers, TVs, set-up-boxes, smart wearables, smart home appliances, shared bikes, game consoles, notebooks and portable navigation devices, etc.

B. Digital TV Products

Digital TV decoder 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. The Company provides users with the best in audio and video enjoyment by strengthening 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 chipsets are mainly used in storage devices of game consoles and multimedia PC. DVD-Rewritable chipsets are mainly used in storage devices of high-end PCs and recordable DVD players. BD-Player chipsets are mainly used in storage devices of game consoles, high-end PCs and high-end TVs with embedded BD-Player.

E. Broadband Networking Products

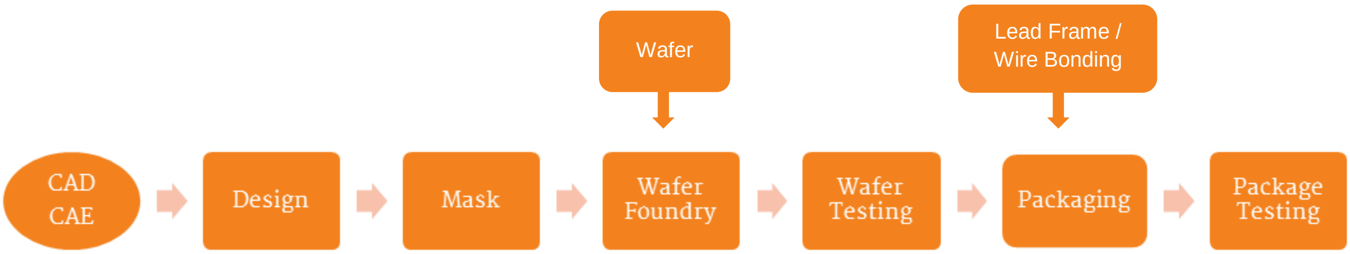
xDSL chipsets are mainly used in digital modems which can be further categorized into the follows by functionality: DSL Modem (purely for bridging purpose), Wired DSL Router (DSL Modem integrating routing function), Wireless DSL Gateway (DSL home gateway integrating WLAN function) and IAD Gateway (DSL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

G. Analog Products

Power management chipsets are core components to provide stable electric current and voltage to electronics. The required functions of power management differ from devices to devices, including voltage detection 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.

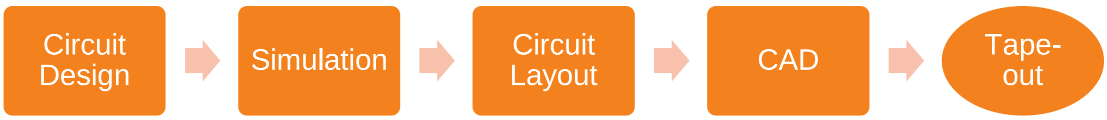
2.2.2 Key Product Manufacturing Process

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

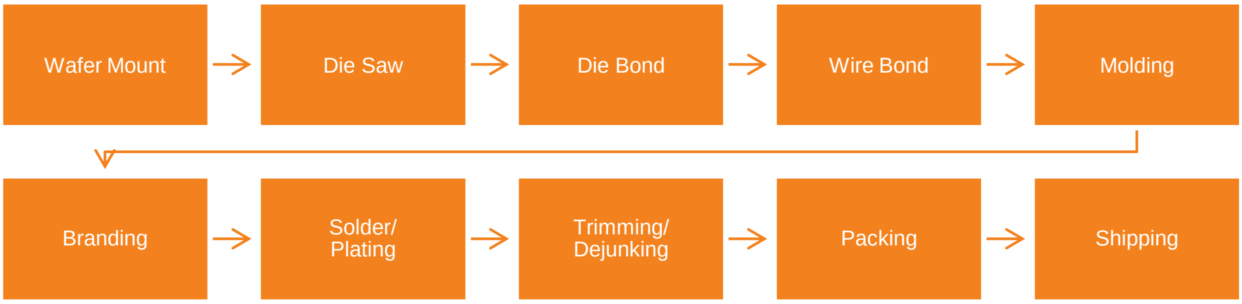
Wafer fabrication is outsourced to foundries. The wafer manufacturing process begins by entering a module and then going through etching, photo, thin film and diffusion with masks. The finished wafers must be tested before shipping to the next stage.

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 the Company's major raw materials and are mainly procured from the Company'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 the Company's requirements. The Company negotiates pricing with suppliers according to market supply and demand conditions. It also reviews production and service quality periodically with its suppliers. The Company 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 / %

2016				2017				2018.Q1			
Supplier	Amount Purchased	% of Total Purchase	Relation	Supplier	Amount Purchased	% of Total Purchase	Relation	Supplier	Amount Purchased	% of Total Purchase	Relation
Supplier A	86,759,626	63.02%	Not Related Parties	**Supplier A**	52,683,095	49.78%	Not Related Parties	**Supplier A**	11,072,744	39.52%	Not Related Parties
Supplier B	15,860,644	11.52%	Not Related Parties	**Supplier C**	15,016,591	14.19%	Not Related Parties	**Supplier C**	4,511,876	16.10%	Not Related Parties
-	-	-	-	-	-	-	-	**Supplier B**	3,277,216	11.70%	Not Related Parties
Others	35,041,646	25.46%		**Others**	38,137,203	36.03%		**Others**	9,153,693	32.68%	
Total	137,661,916	100.00%		**Total**	105,836,889	100.00%		**Total**	28,015,529	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 / %

2016				2017				2018.Q1			
Customer	Sales	% of Total Revenue	Relation	Customer	Sales	% of Total Revenue	Relation	Customer	Sales	% of Total Revenue	Relation
-	-	-	-	-	-	-	-	-	-	-	-
Others (Note)	275,511,714	100.00%		**Others (Note)**	238,216,318	100.00%		**Others (Note)**	49,653,987	100.00%	
Total	275,511,714	100.00%		**Total**	238,216,318	100.00%		**Total**	49,653,987	100.00%	

Note: There are not any customers for more than 10% of the total sales in 2016, 2017 and 2018 Q1.

2.5. Production Volume and Value in the Past Two Years

Unit: thousand pieces / NT$ thousands

	2016			2017		
	Production Capacity	Production Volume	Production Value	Production Capacity	Production Volume	Production Value
Multimedia and Handset Chipsets	Not applicable	7,572,628	180,706,352	Not applicable (Note)	8,236,227	149,371,086

Note: The Company 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

	2016				2017			
	Domestic Sales		Export Sales		Domestic Sales		Export Sales	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Multimedia and handset Chipsets	1,741,036	20,358,101	5,705,962	253,576,165	1,934,717	24,056,665	6,199,080	212,189,959
Others	Not applicable	20,549	Not applicable	1,556,899	Not applicable	7,710	Not applicable	1,961,984
Total	1,741,036	20,378,650	5,705,962	255,133,064	1,934,717	24,064,375	6,199,080	214,151,943

3. Employees

		2016	2017	2018 (As of April 30)
Number of Employees	Management	1,062	1,083	1,101
	R&D	13,849	15,051	15,027
	Sales & Marketing	672	658	663
	Manufacturing	422	466	469
	Total	16,005	17,258	17,260
Average Age		34	34	35
Average Years of Service		4.7	5.0	5.2
Education	Doctoral	5.03%	5.07%	4.98%
	Master	65.89%	67.03%	67.24%
	University & College	28.47%	27.18%	27.12%
	High School	0.61%	0.72%	0.66%
	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	The Company licensed ESS technology and settled the legal dispute.	None
Licensing	Zoran Corporation and Oak Technology, Inc	Permanently effective from Jan. 25, 2006	The Company licensed Zoran's certain IP and its derivative IP.	None
Settlement	British Telecommunication (BT)	Jun. 2010	The Company 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	The Company licensed NTT DOCOMO's LTE technology.	None
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 Wannianda Construction Group Ltd., United Integrated Services, Shanghai Zhen Nan Engineering Supervision Co., Ltd.	From Jan. 30, 2015	MediaTek (Heifei) Inc., a subsidiary of MediaTek Inc., engaged to build new office building on rented land.	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
Investment	NavInfo Co.	From May 13, 2016	The Company 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	The Company signed a strategic cooperation agreement with NavInfo Co., Ltd.	None
Investment and share disposal	NavInfo Co.	From May 13, 2016	Ralink Technology (Samoa) Corp., a subsidiary of MediaTek Inc., 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, a subsidiary of MediaTek Inc., invested no more than USD100M to acquire 35%~49% of Mapbar Technology Limited (BVI) shares.	None
Patent licensing	Rambus Inc.	From Jan. 1, 2017	Rambus and the Company extended patent licensing agreement, which traced back to the beginning of 2017.	None
M&A	Airoha Technology Corp.	From Mar. 28, 2017	Hsu-Si Investment Corp., a subsidiary of MediaTek Inc., acquired all Airoha Technology Corp's issued shares by NT$110 per share from its remaining shareholders.	None
Patent settlement and licensing	Broadcom Ltd.	From Oct. 19, 2017	Both parties accomplished a patent cross-licensing agreement and agreed to file for dismissal of all patent lawsuits by both sides.	None
Share disposal	China Integrated Circuit Industry Investment Fund	From Nov. 22, 2017	Gold Rich International (HK) Limited, a subsidiary of MediaTek Inc., sold approximately 5% of common shares of Shenzhen Huiding Technology Co., Ltd.	None
Share acquisition	Hefei Venture Capital Fund Ltd.	Permanently effective from Apr. 30, 2018	Nephos Cayman Co. Limited, a subsidiary of MediaTek Inc., acquired 20.45% of shares of Nephos (Hefei) Co. Ltd., a subsidiary of MediaTek Inc., from Hefei Venture Capital Fund Ltd.	None

VI. Corporate Social Responsibility

1. Corporate Promise

1.1. Employee Relations

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

A. Communication with Employees

The Company's communication platform is established by a variety of communication channels, managers' assistants and communication effectiveness evaluation. The Company 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 the 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, the Company 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 interaction and connection between employees.

Since the Company began promoting various employee clubs, there have been 48 clubs running in total, including newly established club in 2018. With more than forty percent of our employees belonging to at least one club, the Company 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.

The Company firmly believes that "healthy employees are essential to high productivity". In terms of physical health, the Company has provided high-quality health checks and post-check consultations to its employees for more than 12 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, the Company provides each department exclusive medical session so that executives can 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. The Company 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. The Company started to offer additional service hours at noon and on holidays in 2014 due to growing number of employees and sports demand. We also hired 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 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 the Company's overall policies and software/hardware facilities, but also an employee-friendly working environment. Such an environment would also meet 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 the Company.

E. Care for the Employees and Their Families

The Company not only established employee-friendly relationships policies and environment but also assign dedicated Employee Relations Division 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 physical reasons and improvement actions and thus help departments take necessary rectification measures to solve the problems.

Also, the Company 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 an 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 2017 for example, there were six classes organized, including art class, dance class, kids' dance class, adult yoga class and kids' science experiment class, with many people participating.

F. Employee Welfare Committee

The Company has requested each department to nominate a representative to form an Employee Welfare Committee in accordance to the Organization Regulations on the Employee Welfare Committee stipulated by the Ministry of Labor. The purpose of this committee is to oversee Employee Welfare Committee funds and to promote various benefits. The Company has always set aside a higher percentage of the revenue than what is stipulated by law to sponsor the Employee Welfare Committee, allowing the Committee to offer more benefits. At the same time, the Company has also taken 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, the Company 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

The Company 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 employee's rank and nature of work:

a. **Management Training System**: Helps managers develop their training blueprint based on 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 insufficiency of internal trainings.

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

Categories	2017				Jan. 1 to Apr. 30, 2018			
	Number of classes	Numbers of attendees	Hours	Total cost (NT$)	Number of classes	Numbers of attendees	Hours	Total cost (NT$)
Management Training System	104	2,320	14,150	43,061 thousand	10	251	1,980	7,185 thousand
General Training	59	2,067	9,021		17	415	1,443	
Professional Knowledge Training	149	3,261	10,500		12	2,481	6,363	
Personal effectiveness	133	4,215	22,340		10	259	1,354	
Language training	53	1,499	31,882		22	814	18,827	
External training	434	583	10,643		114	193	4,447	
Total	932	13,945	98,536		185	4,413	34,414	

H. Retirement system

The Company'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 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 reserve as a pension liability on balance sheet.

1.2. Supplier Management

As a technical leader in the semiconductor industry, the Company is at the forefront of the value chain-technological design. Subsequent processes such as raw material procurement, OEM, packaging and testing are all conducted by suppliers, forming a partnership based on each firm's expertise. However, we have realized that the key impact and influence on society and environment comes from our suppliers upon conducting risk evaluation and carbon footprint verifications. Hence, how to partner with our suppliers to reduce potential risks on the society and environment has become our top priority.

We commenced the CSR audit in 2016. In addition to requiring suppliers to sign a CSR guarantee statement, the Company also manages effectiveness of supplier's sustainability actions through the EICC - ON online management system. Moreover, the Company also autonomously produced an EICC training course for all suppliers to assist them in better understanding and complying with relevant regulations. We hope to effectively exert the influence we have as industry leader, and collaborate with suppliers to work toward sustainable business models.

To build a long-lasting, stable partnership with suppliers and achieve the vision of sustainable development, the Company has incorporated standards and proposals that fall under the three primary perspectives of economy, society and environment into our scope of sustainable management of suppliers. Through regulating potential risks, we can uncover potential market opportunities.

From an economic perspective, besides the basic factors of meeting deadlines, production capacity, service, and quality, we also require that suppliers remain in compliance with the TS16949 quality management system for the automobile industry in coordination with the Company's strategic planning for the IoT market. This is required in order to ensure that these suppliers can jointly develop chips for the Internet of Vehicle (IoV) market. From an environmental perspective, we require suppliers to introduce the ISO 14001 Environmental Management System. We also strive to ensure that suppliers do not use hazardous substances. We assess suppliers using Sony Green-Partner and QC080000 standards to comply with the product safety requirements from international customers. From the social aspect, we ensure that suppliers fulfill their social responsibility, comply with international labor rights, and provide a healthy and safe work environment according to the EICC Code of Conduct, SA8000, and OHSAS 18001 standards.

The Company performs supplier risk evaluations from economic, environmental and societal perspectives in order to investigate each supplier's standards under these perspectives and identify potential risks. Step 1: Suppliers undertake self-assessments to ensure their levels of compliance for each indicator and provide supporting materials. Step 2: The Company performs assessments and on-site audits to confirm the data against the self-assessments and supplemental information from suppliers and ensure the completeness and accuracy of the data

2. Social Participation

2.1. Social Contributions

2.1.1 Establish the MediaTek Fellowship

The Company holds the value proposition that knowledge can drive a better future. 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, 63 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 2017, the Company received Taiwan Corporate Sustainability Awards’ highest honor for the very first time, namely, “The Most Prestigious Sustainability Awards-Top Ten Domestic Corporate “, as well as its “Top 50 Corporate Sustainability Report Award”, “Growth through Innovation Award”, “Social Inclusion Award” and “Supply Chain Management Award”. These honors showed that the Company’s efforts on strengthening our research and development capability and corporate governance as well as our innovation culture and technologies competitiveness are highly recognized globally and domestically.

The Company has been working on industry-academia cooperative research projects for 16 years with investment amount of more than one billion. We also extend our partner university lists from National National Taiwan University (NTU), National Tsing Hua University (NTHU) and National Chiao Tung University (NCTU) to National Cheng Kung University (NCKU) and National Chung Cheng University (NCCU). Our targeted areas are adjusted along with the Company’s product developments. Previously, research topics were mainly on circuit design technologies, wireless communication, etc., while current topics are largely focusing on artificial intelligence, 5G, biomedical engineering, etc. Since the end of 2014, the Company and NTU have been working on the project of industry-academia alliance program, "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 research and development of core technologies of “heterogeneous multi-core computing platforms” and “Next generation of mobile telecommunications”. We obtained fruitful results such as core technologies developments with more than 30 patents application and more than 200 papers publication as well as NTU’s first-time participation in standard proposal meeting, in which we published 36 proposals together within three years and another 19 proposals with domestic and foreign companies. At the end of 2016, the Company supported NCTU’s project of industry-academia alliance program, “Three-dimensional Communication and Network Technology and its Application on Smart Campus”, and participated in key research on low latency communication technologies to realize smart campus by our technologies and move forward to smart city and smart country.

The Company has long and close partnership with universities, enabling students to understand corporate mindsets and operation principle and get the hang of business operation when on board through different projects, which is one of the key ways for companies to train potential talents. As for high-tech talent incubation, MediaTek Foundation established MediaTek Junior Chair Professor to inject capital and to subsidize NCTU on oversea top talent recruitment.

The Company presented four innovative technologies papers in ISSCC (International Solid-State Circuit Conference), which set a record that MediaTek is the only Taiwan company to have papers selected for 15 years consecutively.

2.1.3 General Education on Sciences Promotion

The Company has invested in approximately NT$200 million through MediaTek Foundation in the past 16 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. These actions have helped around 140 thousand students and contribute to talent incubation for technology industry from supporting 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 to form groups or clubs to work on projects or conduct club activities. We believe this will increase interest in science in elementary schools and improve students’ practical skills. We encourage teachers and students to extensively absorb technology knowledge and develop interests in deeply researching on technology field by “Science Reading Program Promotion” and “Science Reading Programs”.

To advocate scientific education in high school, MediaTek Foundation established the AaPaTo Honor Society in 2016 to enhance young students' interests and understanding in the technology field and promote scientific education, through which we can foster international technology talents. Currently, AaPaTo Honor Society has established chapters in Jianguo High School, HsinChu Senior High School, HsinChu Girls’ 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 technology fields.

AaPaTo Honor Society is primarily facilitated and led by multiple professors from NCTU's Department of Electronic Engineering. The backbone of the society are full-time assistants, while students in the Electronic Engineering major and the Company’s volunteers serve as seed teachers to undertake thematic teaching projects in various schools. In terms of promoting technological applications, the Company nurtures students' interest in technology by providing the IoT platform, MediaTek LinkIt™ to guide students in realizing their innovative capability while attempting to develop and bring to life all kinds of creations and applications using IoT and wearable technologies.

2.1.4 Disease Containment using Technology

The Company believes that appropriate technological applications can provide solutions to social problems. Hence, we proactively provide technical know-how and resources in collaborations with the government, private sectors, and academia to pursue the greatest benefit to society.

The Company has formed an industry-government-academia disease prevention web with Tainan City Government, NCKU and NCKU Hospital. By incorporating public health expertise with IoT data analytics technology and AI, we successfully formed preventative measures to the spread of Dengue Fever.

The Company 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 epidemic situation, increase 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.

The Company's core technologies assisted in turning data collection from passive to active. Through establishing IoT smart mosquito zappers, we significantly lowered the cost, time frame, and increase precision in disease prevention. We expect the collaboration can enable technology containment in Taiwan to move forward to a global-leading stage.

2.1.5 20th Anniversary Charity Run for Love to support eight global charity initiatives

2017 marks the 20th Anniversary of the Company. In order to enhance employee health and reach global cohesiveness, the Company launched the global employee program, Run for Love, which transferred miles run by global employees to donation amount. More than 10 thousand employees from 14 countries were participating in this event and accumulating mileage of more than 40,000 mile (approximately 64,000 kilometers), which exceeded the original target of 20,000 mile. The Company donated 20 million NT dollars to eight local and foreign charity initiatives, which are expected to directly or indirectly benefit more than 27 thousand people, globally.

15 million out of 20 million of donation was injected in five local charity projects and three foreign charity projects which were selected through employee votes, including topics of teenagers, the elderly, girls, vulnerable families, etc.

2.2. Community Involvement

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

The Company 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", the Company 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 Making contribution to local community – Hsinchu Children Discovery Center

Hisnchu City is a young city and full of opportunities, where the Company was founded and grew. Making contribution to local community has been the Company's focus. Thus, in order to support Hsinchu City Government's plan to transform Hsinchu Taiwan Pavilion Expo Park into educational space for kids', the Company donated 50 million NT dollar to Hsinchu City Government in our 20th anniversary, working with the city government to transform Hsinchu Taiwan Pavilion Expo Park into the Children Discovery Center, which combines the functions of education, science, library and experiences to provide space for children and parents to learn knowledge, discover fun and inspire dream.

This program includes not only donation to support facility transformation but also assistance to kids' library to promote science education, which echoes our targets of talent incubation and local community contribution

2.2.3 Save a Life by Donating Blood – 2017 Blood Drive

"Save a Life by Donating Blood" was a blood drive broadcasted by media and promoted by the Company's employees proactively. Since 2007, the Company's employees have organized regular blood drives to the Hsinchu Blood Center during periods of low supply. In 2017, the Company held two campaigns of blood donations with 912 bags of blood donation and will remain committed to such activities in the future

2.2.4 Volunteer Team

The Company 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, the Company 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. The Company has launched annual volunteering leave since 2015, encouraging employees' participation to contribute to the society and care the groups in need. Also, the Company started to organize the Company's volunteers to engage in science education promotion, reading program in remote areas and charity events to make contribution to society. In 2017, we launched four volunteer events, including coastal cleanup to protect ocean, secondhand kids' book collection, children's Christmas wishes adoption and hair donation for wig, and encouraged employees' families and friends' participation to expand the volunteer scope and plan to include the Group's volunteers in the future.

2.2.5 Environmental Activities

The Company 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 execution result and improves continuously.

3.2. The Company's Energy-Savings Measures and Results

The Company 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. IT Facility Energy-Saving Management

MediaTek improves traditional IT facilities' air conditioning circulation system, executes system control to reduce air conditioning waste and build new high-density data center by power-saving technologies. An annual saving in 2017 was approximately NT$8.36 million.

a. The Company improves traditional IT facilities' air conditioning circulation system, reduces water leakage, and increases environmental temperature as well as executes system control to reduce air conditioning waste. In addition, we replaced traditional fluorescent lamp by LED lighting to generate air conditioner and lighting's power saving benefits with annual saving of NT$4.36 million.
b. New high-density data center is built by new power-saving technologies, which has better power usage effectiveness (PUE), compared to the traditional equipment room, and thus can save electricity cost of approximately NT$4 million.

B. Office Area Air Conditioning Energy-Saving Management

The Company selected energy-saving system equipment and modifies control system requirements to reduce air conditioning waste. An annual saving in 2017 was approximately NT$10.2 million.

a. The Company selected VAV air conditioning system for plants, which conserves significant energy in air ventilation. Compared with the traditional AC control system, the new system can save about 15~30% of power, which sums up to about NT$4.41 million in savings.
b. The Company adjusted water chilling control system from fixed flow to variable flow, which depends on demand to adjust number of active air conditioners and water as well as controls air conditioners' operation time. These added up to approximately NT$ 2.01 million in savings.
c. The Company adjusted water chilling machine operation mode by taking temperature difference, machine operation hours, loaded on/off frequency, etc. into account to group machines to run in parallel, which can reduce number of active machine and thus save energy with an annual saving of approximately NT$2.21 million.
d. The Company implemented air conditional power saving measures in testing areas, warehouse, water chilling machine room, lobby, parking lots, etc. Without affecting equipment/employees' normal operation, we adjust and increase temperatures of environment and chilling water to lower units and time of active air conditioners to save energy with an annual saving of approximately NT$1.57 million.

C. Lighting Energy-Saving Management

The Company continues to use energy-saving lighting equipment and take several measures, including lowering lighting consumption and shortening lighting time. An annual saving in 2017 was approximately NT$2.92 million.

a. Without affecting driving safety, the Company halves the lighting units in parking lots and undertakes systematic reductions in lighting in non-peak hours. In addition, we limit parking to one floor during holidays and turn off lighting in unused floors to save energy with an annual saving of approximately NT$2.24 million.
b. The Company replaced traditional fluorescent lamp by LED lighting in staircases, parking lots, equipment rooms, etc. and shortens lighting time to save energy with an annual saving of approximately NT$680 thousand.

D. Equipment Improvement to Save Energy

The Company improves equipment hardware and optimizes conditions of systematic operation to lower power waste and save energy with an annual saving of approximately NT$3.4 million in 2017.

a. The Company conducts power-saving in testing areas and warehouse by adjusting temperature and humidity control setting, including lowering output pressure of dry oil, increasing temperature setting, adjusting air conditioner control, lowering parameters of temperature system, etc. to save energy with an annual saving of approximately NT$1.89 million.
b. The Company improves equipment by replacing emulator equipment's air-cooled air conditioner with water-cooled air conditioner to save energy with an annual saving of approximately NT$530 thousand.
c. The Company uses modularized UPS for traditional IT facility expansion. Compared to original standalone system, UPS can increase electricity conversion efficiency by approximately 15% to save energy with an annual saving of approximately NT$980 thousand.

E. Power Management

The Company changed calculation for electricity fees from two tiers to three tiers and review and continue to track the impacts on the power usage contract, fluctuations in prices of the electricity fees payable, and the continued benefits of power conservation at the three-tiered pricing level. An annual saving in 2017 was approximately NT$3.84 million.

The Company reduced 4,385 tons of carbon dioxide emissions in 2017 (a savings of 8,290,000 kWh). The calculating standard of the aforementioned carbon dioxide emissions is based on the release of Bureau of Energy, Ministry of Economic Affairs. The 2017 statistics was based on 2016 electricity emission coefficient that 1 kWh of electricity emission is equal to 0.529 kilogram carbon dioxide.

3.2.2 Efforts in water saving

A. The Company replaced traditional faucets with water-saving faucets. Usage of water was reduced by approximately 240 ton in 2017 and carbon emission was reduced by 47 kg/CO_2e.
B. The Company implemented a rainwater collection storage tank. Approximately 481 ton of rainwater was collected in 2017 for cooling water towers and watering plants. Carbon emission was reduced by 94 kg/CO_2e.
C. Approximately 15 ton of condensed water from the Company's air conditioners is reused for plant watering. Approximately 3,720 ton of condensed water is recycled each year and approximately 725 kg/CO_2e of carbon emission is reduced.

3.2.3 Waste Management and Recycling:

For the purpose of achieving the maximum benefits of effective waste management and recycling, the Company 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 the Company 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 operation and safety of the Company's fire extinguisher/suppression system, water/electricity system and air-conditioning system around the clock.
B. Check safety of the Company's working environment and equipment/machinery rooms on a daily basis.
C. Conduct labor safety and sanitation training for new employees on a monthly basis.
D. Conduct disaster prevention and evacuation drill for all employees to continuously strengthen employees' emergency management capabilities on a yearly basis.

E. Authorize SGS to audit the Company’s ISO14001 & OHSAS18001 system on a yearly basis.
F. Promote traffic and working 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	2016	2017	Change	% of Change
Current Assets	220,277,570	238,664,496	18,386,926	8
Funds and Investments	36,970,720	37,772,336	801,616	2
Property, Plant and Equipment	36,857,740	36,938,640	80,900	0
Intangible Assets	72,014,554	76,029,080	4,014,526	6
Other Assets	4,591,188	5,409,633	818,445	18
Total Assets	370,711,772	394,814,185	24,102,413	7
Current Liabilities	119,346,691	127,257,383	7,910,692	7
Non-current Liabilities	4,702,203	6,357,789	1,655,586	35
Total Liabilities	124,048,894	133,615,172	9,566,278	8
Common Stock	15,821,122	15,814,371	(6,751)	(0)
Capital Surplus	89,815,356	88,210,819	(1,604,537)	(2)
Retained Earnings	126,952,601	137,627,576	10,674,975	8
Other Equity	12,245,801	18,214,847	5,969,046	49
Treasury Shares	(55,970)	(55,970)	-	-
Non-controlling Interest	1,883,968	1,387,370	(496,598)	(26)
Total Equity	246,662,878	261,199,013	14,536,135	6

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

(1) Increase in non-current liabilities: Mainly due to increase in long-term payables.
(2) Increase in other equity: Mainly due to increase in available-for-sale financial assets at fair value and partially offset by decrease in exchange differences resulting from FX fluctuation when translating the financial statement of foreign operations.
(3) Decrease in non-controlling interests: Mainly due to loss of control over some subsidiaries.

1.2. Parent Company

Unit: NT$ thousands

Item	2016	2017	Change	% of Change
Current Assets	90,622,975	96,561,558	5,938,583	7
Funds and Investments	171,773,810	186,823,137	15,049,327	9
Property, Plant and Equipment	12,331,165	12,425,597	94,432	1
Intangible Assets	28,504,894	29,449,574	944,680	3
Other Assets	1,607,902	1,897,443	289,541	18
Total Assets	304,840,746	327,157,309	22,316,563	7
Current Liabilities	57,799,284	65,335,126	7,535,842	13
Non-current Liabilities	2,262,552	2,010,540	(252,012)	(11)
Total Liabilities	60,061,836	67,345,666	7,283,830	12
Common Stock	15,821,122	15,814,371	(6,751)	(0)
Capital Surplus	89,815,356	88,210,819	(1,604,537)	(2)
Retained Earnings	126,952,601	137,627,576	10,674,975	8
Other Equity	12,245,801	18,214,847	5,969,046	49
Treasury Shares	(55,970)	(55,970)	-	-
Total Equity	244,778,910	259,811,643	15,032,733	6

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

(1) Increase in other equity: Mainly due to increase in available-for-sale financial assets at fair value and partially offset by decrease in exchange differences resulting from FX fluctuation when translating the financial statement of foreign operations.

2. Operating Results

2.1. Consolidated Report

Unit: NT$ thousands

Item	2016	2017	Change	% of Change
Net Sales	275,511,714	238,216,318	(37,295,396)	(14)
Operating Costs	177,321,882	153,330,436	(23,991,446)	(14)
Gross Profit	98,189,832	84,885,882	(13,303,950)	(14)
Operating Expenses	75,114,057	75,066,740	(47,317)	(0)
Operating Income	23,075,775	9,819,142	(13,256,633)	(57)
Non-Operating Income and Expenses	4,137,110	17,418,321	13,281,211	321
Net Income before Income Tax	27,212,885	27,237,463	24,578	0
Income Tax Expense	3,182,353	3,167,365	(14,988)	(0)
Net Income	24,030,532	24,070,098	39,566	0
Other Comprehensive Income, net of tax	5,691,418	5,263,033	(428,385)	(8)
Total Comprehensive Income	29,721,950	29,333,131	(388,819)	(1)
Net Income Attributable to Owners of the Parent	23,700,598	24,332,604	632,006	3
Total Comprehensive Income Attributable to Owners of the Parent	29,463,494	29,601,582	138,088	0

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

(1) Decrease in operating income: Mainly due to decrease in gross profit from decrease in net sales.
(2) Increase in non-operating income and expenses: Mainly due to gains on disposal of investments, including partial holdings of Shenzhen Huiding Technology Co., Ltd. and full holdings of AutoChips Inc.

2.2. Parent Company

Unit: NT$ thousands

Item	2016	2017	Change	% of Change
Net Sales	121,097,722	92,525,183	(28,572,539)	(24)
Operating Costs	82,574,626	57,747,431	(24,827,195)	(30)
Gross Profit	38,523,096	34,777,752	(3,745,344)	(10)
Unrealized Gross Profit on Sales	(246,645)	(167,992)	78,653	(32)
Realized Gross Profit on Sales	0	73,039	73,039	100
Net Gross Profit	38,276,451	34,682,799	(3,593,652)	(9)
Operating Expenses	37,587,866	34,165,199	(3,422,667)	(9)
Operating Income	688,585	517,600	(170,985)	(25)
Non-Operating Income and Expenses	24,000,115	23,308,592	(691,523)	(3)
Net Income before Income Tax	24,688,700	23,826,192	(862,508)	(3)
Income Tax Expense (Income)	988,102	(506,412)	(1,494,514)	(151)
Net Income	23,700,598	24,332,604	632,006	3
Other Comprehensive Income, net of tax	5,762,896	5,268,978	(493,918)	(9)
Total Comprehensive Income	29,463,494	29,601,582	138,088	0

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

(1) Decrease in net sales, operating costs and gross profit: Mainly due to decrease in net sales resulting from market competition.
(2) Decrease in unrealized gross profit on sales and increase in realized gross profit on sales: Mainly due to continuous decline in inventory balance from affiliated companies' related party transaction.
(3) Decrease in income tax expense (income): Mainly due to reserve the estimated income tax expense after the tax returns of year 2014 and 2015 were assessed by tax authority in year 2017

3. Cash Flow Analysis

3.1. Consolidated Report

Unit: NT$ thousands

Cash Balance Dec. 31, 2016	Net Cash Provided by Operating Activities in 2017	Net Cash Outflows from Investing and Financing Activities in 2017	Impact of Foreign Exchange Ratio	Cash Balance Dec. 31, 2017	Remedy for Cash Shortfall (Investment & Financing Plan)
$140,560,858	$21,348,436	$(12,431,112)	$(4,139,806)	$145,338,376	--

3.1.1 Analysis of the Change in Cash Flow in 2017

Operating activities: Net cash inflow of NT$21,348,436 thousand, mainly from operating profits.
Investing activities: Net cash outflow of NT$8,647,259 thousand, mainly due to acquisition and disposal of financial assets, purchase of fixed assets, and acquisition of Airoha Technology Corp. and investments accounted for using the equity method.
Financing activities: Net cash outflow of NT$3,783,853 thousand, mainly due to distribution of cash dividend and acquisition of the remaining ownership of Airoha Technology Corp. 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, 2016	Net Cash Provided by Operating Activities in 2017	Net Cash Outflows from Investing and Financing Activities in 2017	Cash Balance Dec. 31, 2017	Remedy for Cash Shortfall (Investment & Financing Plan)
$60,244,970	$26,233,215	$(9,329,649)	$77,148,536	--

3.2.1 Analysis of the Change in Cash Flow in 2017

Operating activities: Net cash inflow of NT$26,233,215 thousand, mainly from operating profits
Investing activities: Net cash outflow of NT$7,759,853 thousand, mainly due to the investments in subsidiaries.
Financing activities: Net cash outflow of NT$1,569,796 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 (2017 and 2016)	Status of Actual or Projected Use of Capital	
			2017	2016
Fixed Assets - Land, Office Building and R&D Equipment	Cash flow generated from operation	$10,724,714	$4,053,439	$6,671,275
Intangible Assets - Software, IPs and Patents	Cash flow generated from operation	$2,162,754	$1,795,842	$366,912

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 2017 was NT$72,168 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. The information of the sensitivity analysis is as follows: When NTD appreciates or depreciates against USD by 0.1%, the profit for the years ended December 31, 2017 and 2016 decreases or increases by NT$1,662 thousand and NT$4,860 thousand, while equity decrease/increase by NT$78,448 thousand and NT$32,213 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 or decrease of 10 basis points of interest rate in a reporting period could cause the profit for the years ended December 31, 2017 and 2016 to increase or decrease by NT$6,545 thousand and NT$11,188 thousand, respectively.

Risks associated with inflation:

There was no major impact from inflation on the Company's 2017 operations.

The Finance Department 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 Department 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 2018
Next generation tablet chips	End of 2018
Next generation highly-integrated wireless communication chips	End of 2018
Next generation low-power smart home connectivity chips	End of 2018
Next generation highly-integrated smart UltraHD, 4K120Hz TV chips	End of 2018
Next generation highly-integrated xPON chipsets	End of 2018
Next generation gigabyte digital subscriber line (VDSL 35B) chipsets	End of 2018
Next generation ten megabyte NBASE-T Ethernet physical chipsets	End of 2018
Various electronics' next generation power management and controller chipsets	End of 2018
Next generation brushless DC motor	End of 2018

The Company's R&D projects all follow industry trends and are implemented in a highly integrated and economical way. R&D expenses in 2017 and 2016 were NT$57,170,776 thousand and NT$55,685,244 thousand, accounting for 24% and 20% 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 2018 total R&D budget which is estimated to be 25% of 2018 revenue.

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

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

The Company's Finance Department 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

The Company 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. The Company upholds the partnership with our suppliers and customers and implements corporate social responsibility. At the same time, the Company'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 the Company's corporate image and impact on the Company's crisis management.

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

6.7. Risks Associated with Mergers and Acquisitions

In order to enhance operating performance and competitive edge, the Company acquired Airoha Technology Corp. in 2017. Please refer to "6. Financial Statements and Independent Auditors' Report – the Company & Subsidiaries" under "IX. Financial Information" for more details.

The Company's Business Units and 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 and its subsidiaries expanded office buildings in Tai Yuen Hi-Tech Industrial 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 Company's Human Resources Department and Corporate Facility & Construction Division are responsible for managing the risks associated with plant expansion.

6.9. Risks Associated with Purchase Concentration and Sales Concentration

The Company'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 the Company's products are sold to many clients throughout Japan, Korea, Europe, Southeast Asia, and Greater China.

The Company's 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 the Company's Directors and Major Shareholders Who Own 10% or more of the Company's Total Outstanding Shares

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

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 the Company.

6.12. Risks Associated with Litigations

(1) Semcon IP Inc. ("Semcon") filed a complaint in the United States District Court for the Eastern District of Texas against MTK and subsidiary MediaTek USA Inc. on April 25, 2016, alleging infringement of United States Patent Nos. 7,100,061, 7,596,708, 8,566,627 and 8,806,247. The court dismissed the claims with prejudice against MTK and subsidiary MediaTek USA Inc. pursuant to the parties' joint stipulation on April 18, 2018.

(2) Advanced Micro Devices, Inc. and ATI Technologies ULC (collectively "AMD") filed a complaint with the Commission against MTK and subsidiary MediaTek USA Inc. on January 24, 2017 alleging infringement of United States Patent Nos. 7,633,506, 7,796,133, 8,760,454, and 9,582,846. The operations of MTK and subsidiary MediaTek USA Inc. would not be materially affected by this case.

(3) Lucio Development LLC ("Lucio Development") filed a complaint in the United States District Court for the Western District of Texas against subsidiary MediaTek USA Inc. on December 11, 2017, alleging infringement of United States Patent No. 7,069,546. The court dismissed the claims against MediaTek USA Inc. on April 10, 2018.

The Company will handle these cases carefully.

6.13. Other Material Risk:

None.

7. Other Material Events

7.1. Certificate Holding Status for Personnel Associated with Financial Transparency

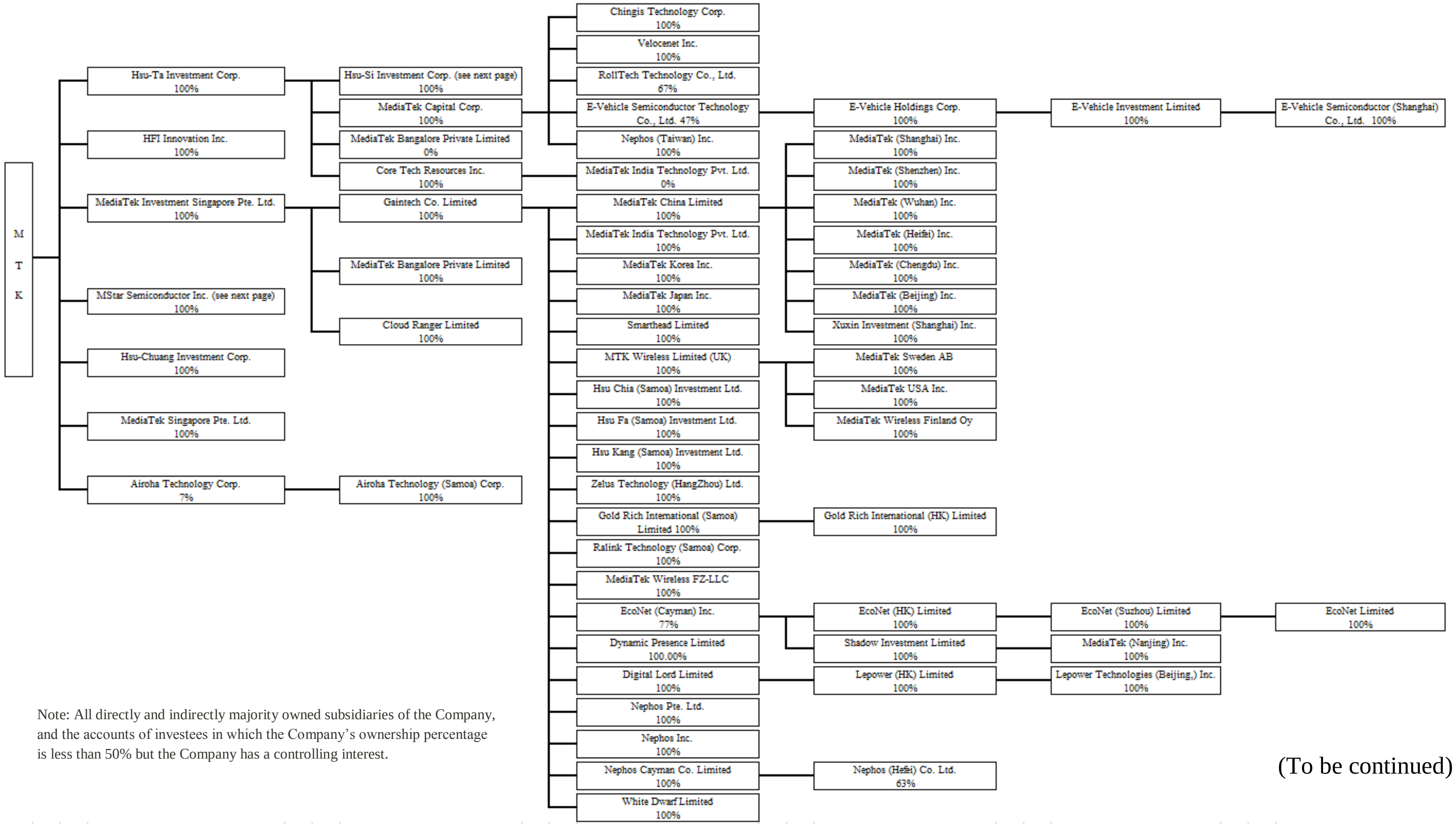
Certificate / Headcount	CPA	US CPA	CA Singapore	CIA	CFA	CMA	FRM
Finance	15	1	1	6	1	1	1
Internal audit	1	-	-	3	-	-	-

VIII. Special Disclosure

1. Summary of Affiliated Companies

1.1. The Company's Affiliated Companies Chart

Dec. 31, 2017



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.

(To be continued)

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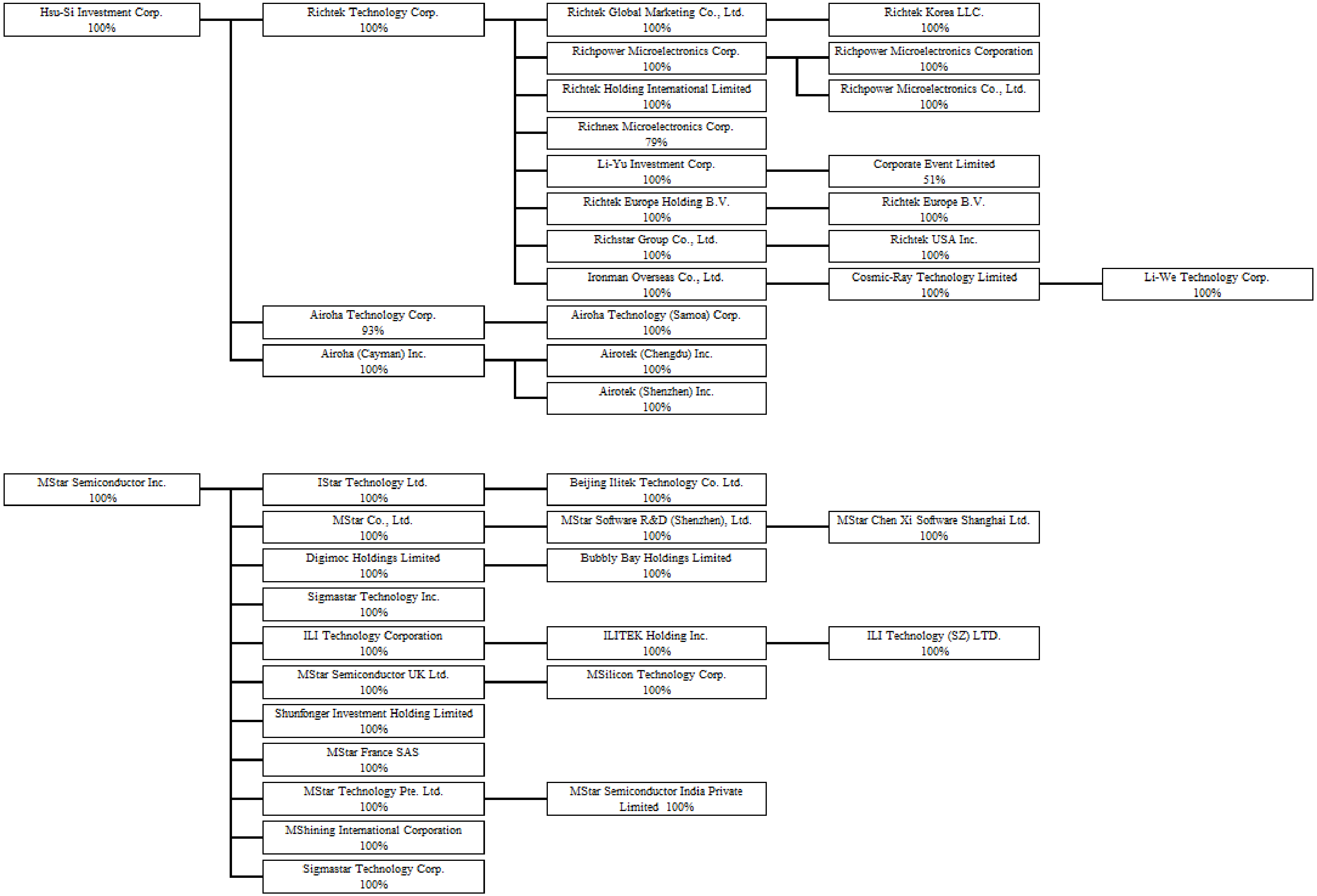

Note: All directly and indirectly majority owned subsidiaries of the Company, and the accounts of investees in which the Company’s ownership percentage is less than 50% but the Company has a controlling interest.

1.2. The Company Affiliated Companies

As of Dec. 31, 2017. 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 39,589,819	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
Airoha (Cayman) Inc.	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 808,281	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 33,500,000	General investing
RollTech Technology Co., Ltd.	Mar 2007	Taiwan	NTD 52,620	Software development
E-Vehicle Semiconductor Technology Co., Ltd.	May 2011	Taiwan	NTD 240,400	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 2,950	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 285,000	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 Corporation	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
Gold Rich International (Samoa) Ltd.	Mar 2011	Samoa	USD 4,290	General investing

Company Name	Date of Incorporation	Place of Registration	Capital Stock	Major Business
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 18,719	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
Nephos Pte. Ltd.	Nov 2015	Singapore	SGD 3,039	Research
Nephos Inc.	Nov 2015	USA	USD 0.1	Research
Nephos Cayman Co. Limited	Dec 2015	Cayman Islands	USD 77,050	General investing
MediaTek (Hefei) 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 Wireless Finland Oy	Oct 2014	Finland	EUR 3	Research
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 3,000	Research, manufacturing and sales
E-Vehicle Holdings Corp.	Aug 2011	Samoa	USD 2,639	General investing
E-Vehicle Investment Limited	Sep 2011	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 400	General investing
EcoNet (Suzhou) Limited	Apr 2014	Mainland China	USD 10,000	Research, manufacturing and sales
MediaTek (Nanjing) Inc.	Jun 2008	Mainland China	USD 1,000	Research
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 23,139	General investing
Dynamic Presence Limited	Apr 2016	B.V.I.	USD 5	General investing
White Dwarf Limited	Jul 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

Company Name	Date of Incorporation	Place of Registration	Capital Stock	Major Business
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
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	USD 20,000	Customer development
MShining International Corporation	Mar 2016	Taiwan	NTD 530,000	Selling of electronic parts
MSilicon Technology Corp.	Mar 2016	U.S.A.	USD 1,000	Research and technology services
MStar Semiconductor India Private Limited	Jul 2015	India	INR 150	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	USD 3,000	Research and technology services
ILITEK Holding Inc.	May 2012	B.V.I.	USD 13,050	General investing
ILI Technology(SZ) LTD.	Oct 2012	Mainland China	USD 13,000	Technology services
Nephos (Hefei) Co. Ltd.	Jul 2016	Mainland China	USD 41,250	Research, manufacturing and sales
Zelus Technology (HangZhou) Ltd.	Oct 2017	Mainland China	CNY 26,468	Software development and sales
Airoha Technology Corp.	Aug 2001	Taiwan	NTD 646,826	Research, manufacturing and sales
Airoha Technology (Samoa) Corp.	Feb 2008	Samoa	USD 1,762	General investing
Airotek (Chengdu) Inc.	Sep 2017	Mainland China	CNY 6,287	Research
Airotek (Shenzhen) Inc.	Sep 2017	Mainland China	CNY 6,287	Research
Sigmastar Technology Corp.	Sep 2017	Taiwan	NTD 10,000	Research, manufacturing and sales
Sigmastar Technology Inc.	Oct 2017	Cayman Islands	USD 0	General investing

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

None.

1.4. Business Scope of the Company and Its Affiliated Companies

Business scope of MediaTek and its affiliates include the investment, R&D, promotion, after-sale service for 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 the Company's Affiliated Companies

December 31, 2017; Unit: share / %

Company Name	Title	Name or Representative	Shares	% of Holding
Hsu-Ta Investment Corp.	Chairman	MediaTek Inc. Rep.: Ching-Jiang Hsieh	3,958,981,889	100%
	Director	MediaTek Inc. Rep.: David Ku		
	Director	MediaTek Inc. Rep.: Iris 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		
Airoha (Cayman) Inc.	Director	Ching-Jiang Hsieh	Hsu-Si Investment Corp. 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.: Iris Chen		
	Supervisor	MediaTek Inc. Rep.: Amy Chung		
HFI Innovation Inc.	Chairman	MediaTek Inc. Rep.: Ching-Jiang Hsieh	80,828,122	100%
	Director	MediaTek Inc. Rep.: David Ku		
	Director	MediaTek Inc. Rep.: Steven Liu		
	Supervisor	MediaTek Inc. Rep.: Iris 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.: Iris Chen		
	Supervisor	Hsu-Ta Investment Corp. Rep.: Amy Chung		
Hsu-Si Investment Corp.	Chairman	Hsu-Ta Investment Corp. Rep.: Ching-Jiang Hsieh	3,350,000,000	100%
	Director	Hsu-Ta Investment Corp. Rep.: David Ku		
	Director	Hsu-Ta Investment Corp. Rep.: Iris Chen		

Company Name	Title	Name or Representative	Shares	% of Holding
	Supervisor	Hsu-Ta Investment Corp. Rep.: Amy Chung		
RollTech Technology Co. Ltd.	Chairman	MediaTek Capital Corp. Rep: Iris Chen	3,510,000	67%
	Director	MediaTek Capital Corp. Rep.: Benson Tsai		
	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	47%
	Director	MediaTek Capital Corp. Rep: Iris Chen		
	Director	Chao-Ting Ho	2,236,000	9%
	Supervisor	Amy Chung	-	-
Chingis Technology Corp.	Chairman	MediaTek Capital Corp. Rep.: Chang-Chaio Han	116,936,991	100%
	Director	MediaTek Capital Corp. Rep.: David Ku		
	Director	MediaTek Capital Corp. Rep.: Iris Chen		
	Supervisor	MediaTek Capital Corp. Rep.: Amy Chung		
Velocenet Inc.	Chairman	MediaTek Capital Corp. Rep.: Ching-Jiang Hsieh	15,428,560	100%
	Director	MediaTek Capital Corp. Rep.: Jerry Yu		
	Director	MediaTek Capital Corp. Rep.: Richard Hsieh		
	Director	MediaTek Capital Corp. Rep.: David Ku		
	Supervisor	MediaTek Capital Corp. Rep.: Amy Chung		
Nephos (Taiwan) Inc.	Chairman	MediaTek Capital Corp. Rep.: Ching-Jiang Hsieh	13,679,360	100%
	Director	MediaTek Capital Corp. Rep.: Jerry Yu		
	Director	MediaTek Capital Corp. Rep.: Richard Hsieh		
	Director	MediaTek Capital Corp. Rep.: David Ku		
	Supervisor	MediaTek Capital Corp. Rep.: Amy Chung		
Richtek Technology Corp.	Chairman / Director	Hsu-Si Investment Corp. Rep.: Luke Hsieh	148,482,806	100%
	Director	Hsu-Si Investment Corp. Rep.: Kou-Hung Loh		
	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. 29,500	100%
Richpower Microelectronics Corp.	Director	Steve Lai	Richtek Technology Corp. 12,600,000	100%

Company Name	Title	Name or Representative	Shares	% of Holding
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	1,431,500	5%
	Director	Richtek Technology Corp. Rep.: Luke Hsieh	22,568,677	79%
	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 Corporation	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.	Chairman/ 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	Iris Chen		
Gold Rich International (Samoa) Limited	Director	Iris Chen	Gaintech Co. Limited 4,290,000	100%
Smarthead Limited	Director	Iris Chen	Gaintech Co. Limited 700,000	100%

Company Name	Title	Name or Representative	Shares	% of Holding
Ralink Technology (Samoa) Corp.	Director	David Ku	Gaintech Co. Limited 7,150,000	100%
EcoNet (Cayman) Inc.	Director	David Ku	Gaintech Co. Limited 14,362,660	77%
	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	Iris Chen		
	Director	David Ku		
Digital Lord Limited	Director	Iris Chen	Gaintech Co. Limited 3,100,000	100%
Hsu Chia (Samoa) Investment Ltd.	Director	Iris Chen	Gaintech Co. Limited 1,000,000,000	100%
Hsu Fa (Samoa) Investment Ltd.	Director	Iris Chen	Gaintech Co. Limited 1,000,000,000	100%
Hsu Kang (Samoa) Investment Ltd.	Director	Iris Chen	Gaintech Co. Limited 1,000,000,000	100%
Nephos Pte. Ltd.	Director	CC Ku	Gaintech Co. Limited 3,039,240	100%
	Director	Ching-Jiang Hsieh		
Nephos Inc.	Director	Ching-Jiang Hsieh	Gaintech Co. Limited 10,000	100%
Nephos Cayman Co. Limited	Director	Jerry Yu	Gaintech Co. Limited 77,050,000	100%
	Director	David Ku		
	Director	Richard Hsieh		
MediaTek (Hefei) Inc.	Executive director / Legal representative	MediaTek China Limited Hai Wang	Not applicable	100%
	Supervisor	MediaTek China Limited Amy Chung		
MediaTek (Beijing) Inc.	Executive director / Legal representative	MediaTek China Limited Hai Wang	Not applicable	100%
	Supervisor	MediaTek China Limited Amy Chung		
MediaTek (ShenZhen) Inc.	Executive director / Legal representative	MediaTek China Limited Hai Wang	Not applicable	100%
	Supervisor	MediaTek China Limited Amy Chung		
MediaTek (Chengdu) Inc.	Executive director / Legal representative	MediaTek China Limited Wang Hai	Not applicable	100%
	Supervisor	MediaTek China Limited Amy Chung		
MediaTek (Wuhan) Inc.	Executive director / Legal representative	MediaTek China Limited Hai Wang	Not applicable	100%
	Supervisor	MediaTek China Limited Amy Chung		
Xuxin Investment (Shanghai) Inc.	Executive director / Legal representative	MediaTek China Limited Hai Wang	Not applicable	100%
	Supervisor	MediaTek China Limited Amy Chung		
MediaTek (Shanghai) Inc.	Executive director / Legal representative	MediaTek China Limited Hai Wang	Not applicable	100%
	Supervisor	MediaTek China Limited Amy Chung		

Company Name	Title	Name or Representative	Shares	% of Holding
MediaTek Sweden AB	Director	David Ku	MTK Wireless Limited (UK) 1,008,371	100%
	Director	Eric Tell		
MediaTek USA Inc.	Director	David Ku	MTK Wireless Limited (UK) 111,815	100%
	Director	Kevin Jou		
MediaTek Wireless Finland Oy	Director	Iris Chen	MTK Wireless Limited (UK) 1,000	100%
	Director	Jeanette Padgett		
	Director	Gemma Noonan		
Gold Rich International (HK) Limited	Director	Iris Chen	Gold Rich International (Samoa) Limited 4,190,000	100%
Lepower (HK) Limited	Director	Iris Chen	Digital Lord Limited 3,050,000	100%
Lepower Technologies (Beijing) Inc.	Executive director / Legal representative	Lepower (HK) Limited Ching-Jiang Hsieh	Not applicable	100%
	Supervisor	Lepower (HK) Limited Amy Chung		
E-Vehicle Holdings Corp.	Director	Iris Chen	E-Vehicle Semiconductor Technology Co. Ltd. 2,639,398	100%
E-Vehicle Investment Limited	Director	Iris Chen	E-Vehicle Holdings Corp. 1,900,000	100%
E-Vehicle Semiconductor (Shanghai) Co., Ltd.	Executive director / Legal representative	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 (Suzhou) Limited 400,000	100%
EcoNet (Suzhou) Limited	Executive director / Legal representative	EcoNet (HK) Limited Hsu-Feng Ho	Not applicable	100%
	Supervisor	EcoNet (HK) Limited Jhe-Wei Lin		
MediaTek (Nanjing) Inc.	Executive director / Legal representative	Shadow Investment Limited Bomin Wang	Not applicable	100%
	Director	Shadow Investment Limited David Ku		
	Director	Shadow Investment Limited Victor Liu		
	Supervisor	Shadow Investment Limited Kirin Liu		
MediaTek Bangalore Private Limited	Director	Grant Kuo	MediaTek Investment Singapore Pte. Ltd. 1,999,999	100%
	Director	David Ku		
	Director	Anku Jain		
Gaintech Co. Limited	Director	David Ku	MediaTek Investment Singapore Pte. Ltd. 326,291,153	100%
Cloud Ranger Limited	Director	Iris Chen	MediaTek Investment Singapore Pte. Ltd. 23,139,000	100%
Dynamic Presence Limited	Director	Iris Chen	Gaintech Co. Limited 5,000,000	100%
White Dwarf Limited	Director	David Ku	Gaintech Co. Limited 5,000	100%

Company Name	Title	Name or Representative	Shares	% of Holding
MStar France SAS	Director	Gon-Wei Liang	MStar Semiconductor Inc. 458,900	100%
Shunfonger Investment Holding Limited	Director	Gon-Wei Liang	MStar Semiconductor Inc. 735,300	100%
IStar Technology Ltd.	Director	Gon-Wei Liang	MStar Semiconductor Inc. 50,000	100%
MStar Co., Ltd.	Director	Gon-Wei Liang	MStar Semiconductor Inc. 5,850,000	100%
Digimoc Holdings Limited	Director	Gon-Wei Liang	MStar Semiconductor Inc. 50,000	100%
MStar Semiconductor UK Ltd.	Director	Gon-Wei Liang	MStar Semiconductor Inc. 915,000	100%
MStar Software R&D (Shenzhan), Ltd.	Chairman/ Legal representative	MStar Co., Ltd. Chin-Men Kao	Not Applicable	100%
	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 (Shenzhan), 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.: Mei-Hui Lin	53,000,000	100%
	Director	MStar Semiconductor Inc. Rep.: Hui-Ting Tsai		
	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	MStar Technology Pte. Ltd. 1,500	100%
	Director	Hui-Ting Tsai		
	Director	SUSHIL KUMAR AGARWAL		
ILI Technology Corporation	Director/ Chairman	MStar Semiconductor Inc. Rep.: Luen-Wu Wei	365,100,000	100%
	Director	MStar Semiconductor Inc. Rep.: Gon-Wei Liang		
	Director	MStar Semiconductor Inc. Rep.: Chang-Yi Shen		
	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.	Chairman	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		
Nephos (Hefei) Co. Ltd.	Executive director / Legal representative	Nephos Cayman Co. Limited Ching-Jiang Hsieh	Not applicable	63%
	Director	Nephos Cayman Co. Limited Jerry Yu		

Company Name	Title	Name or Representative	Shares	% of Holding
	Director	Nephos Cayman Co. Limited Richard Hsieh		
	Director	Nephos Cayman Co. Limited David Ku		
	Director	Hefei Venture Capital Fund Ltd. Wenwu Zhao		20%
	Supervisor	Nephos Cayman Co. Limited Amy Chung		63%
	Supervisor	Hefei Gaoxin Development & Investment Group Company Xue Tin		7%
Zelus Technology (HangZhou) Ltd.	Executive director / Legal representative	Gaintech Co. Limited Hai Wang	Not applicable	100%
	Director	Gaintech Co. Limited DW Tseng		
	Director	Gaintech Co. Limited David Ku		
	Supervisor	Gaintech Co. Limited Amy Chung		
Airoha Technology Corp.	Chairman	Hsu-Si Investment Corp. Rep.: Ching-Jiang Hsieh	56,986,908	93%
	Director	Hsu-Si Investment Corp. Rep.: David Chang		
	Director	Hsu-Si Investment Corp. Rep.: Yuchuan Yang		
	Supervisor	MediaTek Inc. Rep.: David Ku	4,106,000	7%
Airoha Technology (Samoa) Corp.	Chairman	David Chang	Airoha Technology Corp. 1,762,000	100%
Airotek (Chengdu) Inc.	Executive director / Legal representative	Hsu-Si Investment Corp. Yuchuan Yang	Not applicable	100%
	Supervisor	Hsu-Si Investment Corp. David Liang		
Airotek (Shenzhen) Inc.	Executive director / Legal representative	Hsu-Si Investment Corp. Yuchuan Yang	Not applicable	100%
	Supervisor	Hsu-Si Investment Corp. David Liang		
Sigmastar Technology Corp.	Chairman / Director	MStar Semiconductor Inc. Rep.: Yong-Yu Lin	1,000,000	100%
	Director	MStar Semiconductor Inc. Rep.: Gon-Wei Liang		
	Director	MStar Semiconductor Inc. Rep.: Mei-Hui Lin		
	Supervisor	MStar Semiconductor Inc. Rep.: Hui-Ting Tsai		
Sigmastar Technology Inc.	Director	Yong-Yu Lin	MStar Semiconductor Inc. 1,000	100%

1.6. Operation Highlights of the Company's Affiliated Companies

Dec. 31, 2017; Unit: NT$ thousands

Company Name	Capital	Assets	Liabilities	Net Worth	Net Sales	Operating income (loss)	Net Income	EPS (NT$)
Hsu-Ta Investment Corp.	39,589,819	36,998,166	28,838	36,969,328	2,564,368	2,562,021	2,533,362	0.64
MediaTek Singapore Pte. Ltd.	2,327,625	13,851,569	6,814,293	7,037,276	71,862,954	(753,355)	(539,124)	(4.81)
MediaTek Investment Singapore Pte. Ltd.	65,475,626	97,403,136	138	97,402,998	13,838,487	14,552,682	14,552,682	6.63
Airoha (Cayman) Inc.	18,634	29,306	-	29,306	(30,007)	(30,289)	(30,289)	(24.26)
MStar Semiconductor Inc.	1,452,532	26,716,255	11,781,195	14,935,060	41,281,035	9,067,205	7,221,452	49.72
Hsu-Chuang Investment Corp.	300,000	83,450	6	83,444	598	(209,619)	(209,619)	(6.99)
HFI Innovation Inc.	808,281	617,458	6,126	611,332	102,526	(105,047)	(125,757)	(1.56)
Core Tech Resources Inc.	1,707,306	3,159,543	46	3,159,497	(5,051)	(6,132)	(6,132)	(0.11)
MediaTek Capital Corp.	2,157,450	6,869,660	195,002	6,674,658	889,286	885,631	840,340	3.90
Hsu-Si Investment Corp.	33,500,000	26,351,081	-	26,351,081	1,417,535	1,414,538	1,414,538	0.42
RollTech Technology Co., Ltd.	52,620	8,848	609	8,239	1,297	1,016	1,080	0.21
E-Vehicle Semiconductor Technology Co., Ltd.	240,400	110,726	11,015	99,711	13,249	(29,061)	(30,706)	(1.28)
Chingis Technology Corp.	1,169,370	1,134,794	312,054	822,740	523,088	(82,770)	(58,545)	(0.50)
Velocenet Inc.	154,286	75,625	20,145	55,480	250,623	16,396	12,521	0.81
Nephos (Taiwan) Inc.	136,794	207,870	125,507	82,363	154,164	10,086	9,063	0.66
Richtek Technology Corp.	1,484,828	11,049,779	3,372,578	7,677,201	13,218,287	1,765,788	1,659,337	11.18
Richstar Group Co., Ltd.	321,314	140,994	15,569	125,425	-	(1,593)	3,013	0.28
Ironman Overseas Co., Ltd.	266,543	100,187	-	100,187	-	(1,050)	(5,326)	(0.60)
Richtek Europe Holding B.V.	71,665	48,477	77	48,400	-	(80)	5,103	2.55
Richtek Holding International Limited	88,052	45,540	22,752	22,788	21,309	(42,952)	(44,102)	(1,494.98)
Richpower Microelectronics Corp.	86,500	499,042	159,710	339,332	698,364	4,741	8,772	0.70
Li-Yu Investment Corp.	312,751	498,909	8,626	490,283	198,525	185,421	176,836	5.65
Richnex Microelectronics Corp.	285,000	22,591	29,709	(7,118)	28,608	(11,219)	(11,482)	(0.40)
Richtek Global Marketing Co., Ltd.	29,848	39,727	15,819	23,908	149,378	(125)	7,195	3,597.50
Richtek USA Inc.	29,848	138,256	19,702	118,554	106,150	4,418	4,492	4.49
Cosmic-Ray Technology Limited	165,059	68,931	-	68,931	-	-	(4,467)	(0.81)
RichTek Europe B.V.	53,749	33,059	2,647	30,412	22,285	5,210	5,211	3.47
Li-We Technology Corp.	74,620	88,743	52,668	36,075	126,182	(811)	(4,527)	Not applicable
Richpower Microelectronics Corporation	100,000	64,747	1,013	63,734	-	(3,272)	700	0.07
Richpower Microelectronics Co., Ltd.	95,514	38,125	23,325	14,800	73,325	4,302	3,340	Not applicable
Corporate Event Limited	3,044	10,128	7,074	3,054	138,480	-	2	0.02
Richtek Korea LLC.	29,848	47,988	34,069	13,919	148,785	11,673	7,433	743.30
MediaTek China Limited	9,404,508	17,539,754	4,538,777	13,000,977	502,187	502,052	502,052	0.21
MTK Wireless Limited (UK)	2,642,179	3,921,325	146,500	3,774,825	612,008	40,019	285,486	4.36
MediaTek Japan Inc.	26,487	95,092	27,896	67,196	141,897	9,227	5,600	788.73
MediaTek India Technology Pvt. Ltd.	25,702	690,180	214,618	475,562	528,881	96,247	65,169	11.85
MediaTek Korea Inc.	55,760	326,493	161,163	165,330	380,086	24,865	16,779	83.90
Gold Rich International (Samoa) Limited	128,048	30,135,769	-	30,135,769	8,246,733	8,246,689	8,246,689	1,922.31

Company Name	Capital	Assets	Liabilities	Net Worth	Net Sales	Operating income (loss)	Net Income	EPS (NT$)
Smarthead Limited	20,894	65,920	-	65,920	(11,360)	(11,408)	(11,408)	(16.30)
Ralink Technology (Samoa) Corp.	213,413	13,859,104	6,748,879	7,110,225	5,383,497	5,382,710	4,785,927	669.36
EcoNet (Cayman) Inc.	558,735	2,784,568	-	2,784,568	(174,006)	(174,290)	(174,290)	(9.31)
Mediatek Wireless FZ-LLC	406	11,304	5,235	6,069	40,313	2,289	2,289	45,780.00
Digital Lord Limited	92,529	3,632	-	3,632	(9,370)	(9,422)	(9,422)	(3.04)
Hsu Chia (Samoa) Investment Ltd.	4,587,130	4,919,578	-	4,919,578	158,705	147,338	147,338	0.15
Hsu Fa (Samoa) Investment Ltd.	4,587,130	4,902,199	-	4,902,199	183,713	178,277	178,277	0.18
Hsu Kang (Samoa) Investment Ltd.	4,587,130	4,904,198	-	4,904,198	152,572	137,615	137,615	0.14
Nephos Pte. Ltd.	67,901	80,354	22,906	57,448	317,944	20,800	18,521	6.09
Nephos Inc.	3	43,668	31,866	11,802	150,559	9,850	(5,883)	(588.30)
Nephos (Cayman) Co. Limited	2,299,788	2,283,093	-	2,283,093	(659,457)	(659,687)	(659,687)	(8.56)
MediaTek (Hefei) Inc.	507,416	2,184,104	1,060,538	1,123,566	1,430,789	105,413	86,234	Not applicable
MediaTek (Beijing) Inc.	2,984,800	4,760,531	224,514	4,536,017	1,684,900	116,671	150,103	Not applicable
MediaTek (Shenzhen) Inc.	2,686,320	6,690,333	3,595,442	3,094,891	1,902,045	84,934	56,743	Not applicable
MediaTek (Chengdu) Inc.	1,486,430	2,104,080	199,274	1,904,806	895,316	63,225	105,037	Not applicable
MediaTek (Wuhan) Inc.	143,270	390,011	58,271	331,740	339,923	25,179	32,746	Not applicable
Xuxin Investment (Shanghai) Inc.	271,617	209,349	-	209,349	(23,214)	(23,353)	(23,353)	Not applicable
MediaTek (Shanghai) Inc.	1,362,378	4,285,730	2,878,142	1,407,588	1,101,762	74,190	54,490	Not applicable
MediaTek Sweden AB	3,678	132,184	35,818	96,366	145,861	9,542	8,873	8.80
MediaTek USA Inc.	3	4,051,398	1,466,181	2,585,217	3,849,075	251,809	275,597	2,464.76
MediaTek Wireless Finland Oy	90	385,503	190,798	194,705	823,588	53,880	72,805	72,805.00
Gold Rich International (HK) Limited	125,063	32,494,760	2,361,604	30,133,156	9,382,349	9,371,642	8,246,732	1,968.19
Lepower (HK) Limited	91,036	2,247	-	2,247	(9,263)	(9,373)	(9,373)	(3.07)
Lepower Technologies (Beijing,) Inc.	89,544	29,069	27,591	1,478	27,288	(9,068)	(9,387)	Not applicable
E-Vehicle Holdings Corp.	78,779	14,795	-	14,795	5,819	(1,469)	(1,469)	(0.56)
E-Vehicle Investment Limited	56,711	14,797	-	14,797	1,467	1,467	1,467	0.77
E-Vehicle Semiconductor (Shanghai) Co., Ltd.	56,711	34,214	19,527	14,687	25,912	5,873	5,819	Not applicable
Shadow Investment Limited	447,720	73,534	-	73,534	172	134	134	0.01
EcoNet (HK) Limited	2,015,770	2,554,849	14,373	2,540,476	(137,810)	(176,230)	(176,230)	(2.61)
EcoNet Limited	11,939	14,507	-	14,507	2,609	2,549	2,549	6.37
EcoNet (Suzhou) Limited	298,480	2,768,038	1,178,182	1,589,856	4,007,309	848,652	768,573	Not applicable
MediaTek (Nanjing) Inc.	29,848	31,284	-	31,284	-	(487)	(402)	Not applicable
MediaTek Bangalore Private Limited	9,346	628,970	307,006	321,964	839,039	137,270	142,039	71.02
Gaintech Co. Limited	9,739,138	116,038,542	20,093,792	95,944,750	13,747,491	13,741,809	13,741,809	42.12
Cloud Ranger Limited	690,653	691,224	-	691,224	702	603	603	0.03
Dynamic Presence Limited	149	134	28	106	-	(46)	(46)	(0.01)
White Dwarf Limited	149	4,991	-	4,991	29	(47)	(47)	(9.40)
MStar France SAS	164,435	905,020	23,739	881,281	68,569	3,263	76,972	167.73
Shunfonger Investment Holding Limited	21,947	159	-	159	-	-	-	-
IStar Technology Ltd.	1,492	144,643	-	144,643	-	(113)	(17,193)	(343.86)

Company Name	Capital	Assets	Liabilities	Net Worth	Net Sales	Operating income (loss)	Net Income	EPS (NT$)
MStar Co., Ltd.	174,611	664,882	591,089	73,793	154,034	(364,296)	(364,043)	(62.23)
Digimoc Holdings Limited	1,492	21,030	4,399	16,631	3	(922,456)	(922,456)	(18,449.12)
MStar Semiconductor UK Ltd.	36,905	109,376	3,081	106,294	51,017	1,838	5,928	6.48
MStar Software R&D (Shenzhen), Ltd.	895,440	599,685	220,242	379,443	1,355,667	120,184	152,921	Not applicable
Bubbly Bay Holdings Limited	1,492	2,768	-	2,768	-	(37)	(36)	(0.72)
MStar Chen Xi Software Shanghai Ltd.	41,284	91,564	(41,494)	133,058	242,297	34,906	34,673	Not applicable
MStar Technology Pte. Ltd.	596,960	1,565,253	632,728	932,526	2,945,730	163,398	109,556	5.48
MShining International Corporation	530,000	823,350	180,697	642,653	1,825,154	202,743	166,788	3.15
MSilicon Technology Corp.	29,848	17,759	-	17,759	31,702	2,074	1,733	1.73
MStar Semiconductor India Private Limited	70	9,393	442	8,952	34,929	5,821	5,440	3,626.68
ILI Technology Corporation	3,651,000	5,166,912	1,667,872	3,499,040	7,196,449	64,567	(3,489)	(0.01)
Beijing Ilitek Technology Co. Ltd.	89,544	241,347	163,031	78,316	1,238,316	(11,595)	(17,154)	Not applicable
ILITEK Holding Inc.	399,927	396,201	-	396,201	-	(25)	5,157	0.40
ILI Technology (SZ) LTD.	388,024	409,854	14,972	394,882	137,765	7,701	5,287	Not applicable
Nephos (Hefei) Co. Ltd.	1,231,230	1,912,267	707,142	1,205,125	7,483	(1,056,055)	(1,024,792)	Not applicable
Zelus Technology (HangZhou) Ltd.	119,392	120,025	-	120,025	-	-	(1,395)	Not applicable
Airoha Technology Corp.	646,826	5,088,051	2,603,023	2,485,028	6,846,920	838,112	652,372	10.80
Airoha Technology (Samoa) Corp.	68,580	9,378	2,222	7,156	24	(42,231)	(42,231)	(23.97)
Airotek (Chengdu) Inc.	28,838	22,175	4,685	17,490	-	(11,084)	(11,404)	Not applicable
Airotek (Shenzhen) Inc.	28,838	21,093	13,543	7,550	-	(20,854)	(21,406)	Not applicable
Sigmastar Technology Corp.	10,000	103,277	102,132	1,145	-	(8,904)	(8,855)	(8.86)
Sigmastar Technology Inc.	-	-	-	-	-	-	-	-

Note: The amount of capital, asset, liabilities and net worth in this table were calculated using the exchange rate at end of 2017. The net sales, income from operation, net income and EPS numbers were calculated using the average exchange rate in 2017.

2. Private Placement Securities

None.

3. Holding or Disposition of the Company Stocks by Subsidiaries

Unit: NT$ thousands / share / %

Subsidiary	Paid-in Capital	Source of Funding	The Company 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 the Company	Balance of Financing Provided by the Company
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. 2013-2018Q1 Consolidated Condensed Balance Sheets – the Company & Subsidiaries

Unit: NT$ thousands

Item		2013	2014	2015	2016	2017	2018Q1
Current assets		161,740,929	248,554,935	214,873,175	220,277,570	238,664,496	240,289,233
Funds and investments		68,039,686	15,000,614	22,813,731	36,970,720	37,772,336	54,311,310
Property, plant and equipment		11,312,107	23,294,555	34,390,077	36,857,740	36,938,640	37,890,978
Intangible assets		15,509,193	60,757,826	75,430,673	72,014,554	76,029,080	75,286,346
Other assets		2,034,947	3,510,741	3,742,000	4,591,188	5,409,633	5,584,488
Total assets		258,636,862	351,118,671	351,249,656	370,711,772	394,814,185	413,362,355
Current liabilities	Before distribution	61,384,592	101,619,838	101,266,471	119,346,691	127,257,383	133,515,839
	After distribution	84,949,915	136,194,535	118,553,892	131,999,518	(Note1)	(Note2)
Non-current liabilities		1,898,871	1,893,086	2,896,300	4,702,203	6,357,789	5,831,547
Total liabilities	Before distribution	63,283,463	103,512,924	104,162,771	124,048,894	133,615,172	139,347,386
	After distribution	86,848,786	138,087,621	121,450,192	136,701,721	(Note1)	(Note2)
Equity attributable to owners of the parent							
Share capital		13,497,140	15,714,922	15,715,837	15,821,122	15,814,371	15,814,547
Capital surplus		68,474,910	88,047,914	88,354,178	89,815,356	88,210,819	88,207,076
Retained earnings	Before distribution	114,294,875	136,855,169	128,508,763	126,952,601	137,627,576	142,701,738
	After distribution	90,729,552	102,280,472	111,221,342	114,299,774	(Note1)	(Note2)
Other equity		(895,749)	6,606,113	7,904,918	12,245,801	18,214,847	25,937,441
Treasury shares		(55,970)	(55,970)	(55,970)	(55,970)	(55,970)	(55,970)
Total equity attributable to owners of the parent	Before distribution	195,315,206	247,168,148	240,427,726	244,778,910	259,811,643	272,604,832
	After distribution	171,749,883	212,593,451	223,140,305	232,126,083	(Note1)	(Note2)
Non-controlling interests		38,193	437,599	6,659,159	1,883,968	1,387,870	1,410,137
Total equity	Before distribution	195,353,399	247,605,747	247,086,885	246,662,878	261,199,013	274,014,969
	After distribution	171,788,076	213,031,050	229,799,464	234,010,051	(Note1)	(Note2)

Note1: Pending on approval of shareholders at Annual General Shareholders' Meeting.
Note2: Not applicable.

1.2. 2013-2017 Condensed Balance Sheets – Parent Company

Unit: NT$ thousands

Item		2013	2014	2015	2016	2017
Current assets		70,707,646	149,267,002	94,412,808	90,622,975	96,561,558
Funds and investments		144,972,800	129,656,160	155,319,309	171,773,810	186,823,137
Property, plant and equipment		6,331,668	9,177,068	10,565,034	12,331,165	12,425,597
Intangible assets		7,242,842	28,740,924	29,881,027	28,504,894	29,449,574
Other assets		1,216,985	2,429,791	1,292,315	1,607,902	1,897,443
Total assets		230,471,941	319,270,945	291,470,493	304,840,746	327,157,309
Current liabilities	Before distribution	33,630,662	70,428,396	49,045,380	57,799,284	65,335,126
	After distribution	57,195,985	105,003,093	66,332,801	70,452,111	(Note)
Non-current liabilities		1,526,073	1,674,401	1,997,387	2,262,552	2,010,540
Total liabilities	Before distribution	35,156,735	72,102,797	51,042,767	60,061,836	67,345,666
	After distribution	58,722,058	106,677,494	68,330,188	72,714,663	(Note)
Share capital		13,497,140	15,714,922	15,715,837	15,821,122	15,814,371
Capital surplus		68,474,910	88,047,914	88,354,178	89,815,356	88,210,819
Retained earnings	Before distribution	114,294,875	136,855,169	128,508,763	126,952,601	137,627,576
	After distribution	90,729,552	102,280,472	111,221,342	114,299,774	(Note)
Other equity		(895,749)	6,606,113	7,904,918	12,245,801	18,214,847
Treasury shares		(55,970)	(55,970)	(55,970)	(55,970)	(55,970)
Total equity	Before distribution	195,315,206	247,168,148	240,427,726	244,778,910	259,811,643
	After distribution	171,749,883	212,593,451	223,140,305	232,126,083	(Note)

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

2. Condensed Statements of Comprehensive Income

2.1. 2013-2018Q1 Consolidated Condensed Statements of Comprehensive Income – the Company & Subsidiaries

Unit: NT$ thousands

Item	2013	2014	2015	2016	2017	2018Q1
Net sales	136,055,954	213,062,916	213,255,240	275,511,714	238,216,318	49,653,987
Gross profit	59,805,584	103,868,621	92,179,586	98,189,832	84,885,882	19,084,688
Operating income	25,243,720	47,241,310	25,907,970	23,075,775	9,819,142	1,929,441
Non-operating income and expenses	4,303,102	5,108,645	3,460,523	4,137,110	17,418,321	1,183,070
Net income before income tax	29,546,822	52,349,955	29,368,493	27,212,885	27,237,463	3,112,511
Net income	27,484,650	46,399,073	25,768,732	24,030,532	24,070,098	2,660,244
Other comprehensive Income, net of tax	4,253,825	7,268,758	1,594,830	5,691,418	5,263,033	966,911
Total comprehensive income	31,738,475	53,667,831	27,363,562	29,721,950	29,333,131	3,627,155
Net income (loss) for the periods attributable to:						
Owners of the parent	27,515,052	46,397,892	25,958,429	23,700,598	24,332,604	2,644,868
Non-controlling interests	(30,402)	1,181	(189,697)	329,934	(262,506)	15,376
Total comprehensive income for the periods attributable to:						
Owners of the parent	31,760,633	53,627,479	27,527,096	29,463,494	29,601,582	3,604,388
Non-controlling interests	(22,158)	40,352	(163,534)	258,456	(268,451)	22,767
Earnings per share (NT$)	20.51	30.04	16.60	15.16	15.56	1.69
Earnings per share – adjusted (NT$)	20.51	30.04	16.60	15.16	(Note1)	(Note2)

Note1: Pending on approval of shareholders at Annual General Shareholders' Meeting.
Note2: Not applicable.

2.2. 2013-2017 Condensed Statements of Comprehensive Income – Parent Company

Unit: NT$ thousands

Item	2013	2014	2015	2016	2017
Net sales	96,230,064	136,265,018	99,245,700	121,097,722	92,525,183
Gross profit	41,335,679	68,274,360	49,716,650	38,523,096	34,777,752
Operating income	18,812,492	33,867,177	11,447,326	688,585	517,600
Non-operating income and expenses	10,395,013	16,233,126	16,603,855	24,000,115	23,308,592
Net income before income tax	29,207,505	50,100,303	28,051,181	24,688,700	23,826,192
Net income	27,515,052	46,397,892	25,958,429	23,700,598	24,332,604
Other Comprehensive Income, net of tax	4,245,581	7,229,587	1,568,667	5,762,896	5,268,978
Total comprehensive income	31,760,633	53,627,479	27,527,096	29,463,494	29,601,582
Earnings per share (NT$)	20.51	30.04	16.60	15.16	15.56
Earnings per share – adjusted (NT$)	20.51	30.04	16.60	15.16	(Note)

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

3. Auditors' Opinions from 2013 to 2017

Year	Accounting Firm	Name of Auditors (CPA)	Audio Opinion
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
2017	Ernst & Young	Shou-Pin Kuo, Wen-Fun Fuh	Unqualified Opinions

4. Five-Year Financial Analysis

4.1. 2013-2018Q1 Consolidated Financial Analysis – the Company & Subsidiaries

Item			2013	2014	2015	2016	2017	2018Q1
Capital structure analysis	Debt ratio (%)		24.47	29.48	29.65	33.46	33.84	33.71
	Long-term fund to property, plant and equipment ratio (%)		1,727.71	1,063.17	718.48	670.37	712.69	726.26
Liquidity Analysis	Current ratio (%)		263.49	244.59	212.19	184.60	187.54	179.97
	Quick ratio (%)		245.97	220.40	186.19	154.91	165.59	153.72
	Times interest earned (Times)		202.25	110.34	54.87	49.69	30.00	8.64
Operating performance analysis	Average collection turnover (Times)		11.58	12.88	10.37	10.89	8.94	7.72
	Days sales outstanding		32	28	35	34	41	47
	Average inventory turnover (Times)		5.36	5.07	3.87	4.67	3.57	2.70
	Average payment turnover (Times)		7.63	8.55	7.87	8.70	6.36	4.69
	Average inventory turnover days		68	72	94	78	102	135
	Property, plant and equipment turnover (Times)		12.34	12.31	7.39	7.73	6.45	5.31
	Total assets turnover (Times)		0.58	0.70	0.61	0.76	0.62	0.49
Profitability analysis	Return on total assets (%)		11.77	15.35	7.47	6.79	6.49	2.96
	Return on equity attributable to owners of the parent (%)		14.82	20.95	10.42	9.73	9.47	3.98
	Pre-tax income to paid-in capital (%)		218.91	333.12	186.87	172.00	172.23	19.68
	Net margin (%)		20.20	21.78	12.08	8.72	10.10	5.36
	Earnings per share (NT$)	Before adjustments	20.51	30.04	16.60	15.16	15.56	1.69
		After adjustments	20.51	30.04	16.60	15.16	N/A	N/A
Cash flow	Cash flow ratio (%)		64.47	43.62	23.08	27.28	16.77	(1.25)
	Cash flow adequacy ratio (%)		141.34	105.66	94.44	98.80	102.91	82.92
	Cash flow reinvestment ratio (%)		14.68	10.75	(6.21)	8.23	3.21	(0.78)
Leverage	Operating leverage		4.13	3.60	6.25	9.21	18.93	19.95
	Financial leverage		1.01	1.01	1.02	1.02	1.11	1.27

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

(1) Times interest earned decreased by 40%: Mainly due to increase in interest expenses.
(2) Days sales outstanding increased by 22%: Mainly due to decrease in sales resulting in lower net sales
(3) Average inventory turnover decreased by 24% and average inventory turnover days increased by 31%: Mainly due to decrease in sales resulting in lower operating costs and higher average inventory.
(4) Average payment turnover decreased by 27%: Mainly due to decrease in sales resulting in lower operating costs and higher average trade payables.
(5) Cash flow ratio decreased by 39% and cash flow reinvestment ratio decreased by 61%: Mainly due to decrease in cash provided by operating activities.
(6) Operating leverage increased by 106%: Mainly due to decrease in operating income.

4.2. 2013-2017 Financial Analysis – Parent Company

Item			2013	2014	2015	2016	2017
Capital structure analysis	Debt ratio (%)		15.25	22.58	17.51	19.70	20.59
	Long-term fund to property, plant and equipment ratio (%)		3,084.74	2,693.91	2,275.69	1,985.04	2099.34
Liquidity Analysis	Current ratio (%)		210.25	211.94	192.50	156.79	147.79
	Quick ratio (%)		190.46	198.88	174.50	131.51	136.74
	Times interest earned (Times)		1,393.09	294.80	96.42	77.05	46.11
Operating performance analysis	Average collection turnover (Times)		13.20	14.15	11.95	14.12	10.14
	Days sales outstanding		28	26	31	26	36
	Average inventory turnover (Times)		5.31	5.94	3.72	5.10	3.17
	Average payment turnover (Times)		7.89	9.43	7.46	10.29	7.59
	Average inventory turnover days		69	61.47	98.07	71.52	115.01
	Property, plant, and equipment turnover (Times)		15.26	17.57	10.05	10.58	7.47
	Total assets turnover (Times)		0.45	0.50	0.33	0.41	0.29
Profitability analysis	Return on total assets (%)		12.85	16.93	8.58	8.04	7.84
	Return on equity attributable to shareholders of the parent (%)		14.84	20.97	10.65	9.77	9.64
	Pre-tax income to paid-in capital (%)		216.40	318.81	178.49	156.05	150.66
	Net margin (%)		28.59	34.05	26.16	19.57	26.30
	Basic earnings per share (NT$)	Before adjustments	20.51	30.04	16.60	15.16	15.56
		After adjustments	20.51	30.04	16.60	15.16	N/A
Cash flow	Cash flow ratio (%)		92.35	101.08	19.29	24.28	40.15
	Cash flow adequacy ratio (%)		96.33	116.95	106.96	107.05	122.29
	Cash flow reinvestment ratio (%)		9.81	21.41	(11.59)	(1.46)	4.73
Leverage	Operating leverage		3.72	3.00	5.70	122.95	129.32
	Financial leverage		1.00	1.01	1.03	1.89	(48.75)

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

(1) Times interest earned decreased by 40%: Mainly due to increase in interest expenses.
(2) Average collection turnover decreased by 28%, days sales outstanding increased by 39%, property, plant and equipment turnover decreased by 29% and total assets turnover decreased by 29%: Mainly due to decrease in sales resulting in lower net sales
(3) Average inventory turnover decreased by 38%, average payment turnover decreased by 26% and average inventory turnover days increased by 61%: Mainly due to decrease in sales resulting in lower operating costs.
(4) Net margin increased by 34%: Mainly due to increase in gross margin.
(5) Cash flow ratio increased by 65% and cash flow reinvestment ratio increased: Mainly due to increase in net cash provided by operating activities and decrease in cash dividend.
(6) Financial leverage decreased: Mainly due to increase in interest expenses.

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 2017 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. 2018 Annual General Shareholders' Meeting

MediaTek Inc.

Chairman of the Audit Committee: Chung-Yu Wu

April 27, 2018

6. Financial Statements and Independent Auditors' Report –the Company & Subsidiaries (Page F1 – Page F117)

7. Financial Statements and Independent Auditors' Report – Parent Company (Page F118 – Page F204)

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, 2017 AND 2016

REPRESENTATION LETTER

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

Very truly yours,

MediaTek Inc.

Chairman: Ming-Kai Tsai

March 23, 2018

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安永聯合會計師事務所

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English Translation of a Report Originally Issued in Chinese

Independent Auditors' Report

To the Board of Directors and Shareholders
of MediaTek Inc.

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of MediaTek Inc. and its subsidiaries.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern of MediaTek Inc. and its subsidiaries. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause MediaTek Inc. and its subsidiaries to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the accompanying notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within MediaTek Inc. and its subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Others

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

/s/Kuo, Shao-Pin

/s/Fuh, Wen-Fun

Ernst & Young
CERTIFIED PUBLIC ACCOUNTANTS
March 23, 2018
Taipei, Taiwan
Republic of China

Notice to Readers

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

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

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of December 31, 2017 and 2016

(Amounts in thousands of New Taiwan Dollars)

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

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

Chairman : Ming-Kai Tsai　　President : Lih-Shyng Tsai　　Chief Financial Officer : David Ku

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of December 31, 2017 and 2016
(Amounts in thousands of New Taiwan Dollars)

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

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

Chairman : Ming-Kai Tsai　　President : Lih-Shyng Tsai　　Chief Financial Officer : David Ku

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2017 and 2016

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

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

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

Chairman : Ming-Kai Tsai President : Lih-Shyng Tsai Chief Financial Officer : David Ku

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, 2017 and 2016

(Amounts in thousands of New Taiwan Dollars)

Description	Equity attributable to owners of the parent										Non-controlling interests	Total equity
	Share capital			Retained earnings		Other equity						
	Common stock	Capital collected in advance	Capital surplus	Legal reserve	Undistributed earnings	Exchange differences resulting from translating the financial statements of foreign operations	Unrealized gains (losses) from available-for-sale financial assets	Other	Treasury shares	Equity attributable to owners of the parent		
Balance as of January 1, 2016	$ 15,715,837	$ -	$ 88,354,178	$ 32,032,476	$ 96,476,287	$ 6,503,595	$ 1,401,323	$ -	$ (55,970)	$ 240,427,726	$ 6,659,159	$ 247,086,885
Appropriation and distribution of 2015 earnings:												
Legal reserve	-	-	-	2,595,843	(2,595,843)	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(17,287,421)	-	-	-	-	(17,287,421)	-	(17,287,421)
Total	-	-	-	2,595,843	(19,883,264)	-	-	-	-	(17,287,421)	-	(17,287,421)
Profit for the year ended December 31, 2016	-	-	-	-	23,700,598	-	-	-	-	23,700,598	329,934	24,030,532
Other comprehensive income for the year ended December 31, 2016	-	-	-	-	(54,015)	(4,307,700)	10,124,611	-	-	5,762,896	(71,478)	5,691,418
Total comprehensive income	-	-	-	-	23,646,583	(4,307,700)	10,124,611	-	-	29,463,494	258,456	29,721,950
Share-based payment transactions	-	-	10,353	-	-	-	-	-	-	10,353	-	10,353
Adjustments due to dividends that subsidiaries received from parent company	-	-	85,735	-	-	-	-	-	-	85,735	-	85,735
The differences between the fair value of the consideration paid or received from acquiring or disposing subsidiaries and the carrying amounts of the subsidiaries	-	-	(142,643)	-	(7,915,324)	-	-	-	-	(8,057,967)	-	(8,057,967)
Changes in ownership interests in subsidiaries	-	-	(99,948)	-	-	-	-	-	-	(99,948)	220,048	120,100
Issuance of restricted stock for employees	105,285	-	1,660,064	-	-	-	-	(1,476,028)	-	289,321	-	289,321
Changes in associates and joint ventures accounted for using the equity method	-	-	(52,383)	-	-	-	-	-	-	(52,383)	-	(52,383)
Non-controlling interests	-	-	-	-	-	-	-	-	-	-	(5,253,695)	(5,253,695)
Balance as of December 31, 2016	15,821,122	-	89,815,356	34,628,319	92,324,282	2,195,895	11,525,934	(1,476,028)	(55,970)	244,778,910	1,883,968	246,662,878
Appropriation and distribution of 2016 earnings:												
Legal reserve	-	-	-	2,370,060	(2,370,060)	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(12,652,827)	-	-	-	-	(12,652,827)	-	(12,652,827)
Total	-	-	-	2,370,060	(15,022,887)	-	-	-	-	(12,652,827)	-	(12,652,827)
Cash dividends distributed from capital surplus	-	-	(2,372,405)	-	-	-	-	-	-	(2,372,405)	-	(2,372,405)
Profit for the year ended December 31, 2017	-	-	-	-	24,332,604	-	-	-	-	24,332,604	(262,506)	24,070,098
Other comprehensive income for the year ended December 31, 2017	-	-	-	-	172,621	(4,440,659)	9,537,016	-	-	5,268,978	(5,945)	5,263,033
Total comprehensive income	-	-	-	-	24,505,225	(4,440,659)	9,537,016	-	-	29,601,582	(268,451)	29,333,131
Share-based payment transactions	-	231	(14,935)	-	-	-	-	-	-	(14,704)	15,072	368
Adjustments due to dividends that subsidiaries received from parent company	-	-	74,044	-	-	-	-	-	-	74,044	-	74,044
The differences between the fair value of the consideration paid or received from acquiring or disposing subsidiaries and the carrying amounts of the subsidiaries	-	-	-	-	(1,210,299)	(5,524)	-	-	-	(1,215,823)	-	(1,215,823)
Changes in ownership interests in subsidiaries	-	-	969,913	-	-	-	-	-	-	969,913	1,028,273	1,998,186
Issuance of restricted stock for employees	(6,982)	-	(259,863)	-	32,876	-	-	878,213	-	644,244	-	644,244
Changes in other capital surplus	-	-	(1,291)	-	-	-	-	-	-	(1,291)	10,619	9,328
Non-controlling interests	-	-	-	-	-	-	-	-	-	-	(1,282,111)	(1,282,111)
Balance as of December 31, 2017	$ 15,814,140	$ 231	$ 88,210,819	$ 36,998,379	$ 100,629,197	$ (2,250,288)	$ 21,062,950	$ (597,815)	$ (55,970)	$ 259,811,643	$ 1,387,370	$ 261,199,013

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

Chairman : Ming-Kai Tsai President : Lih-Shyng Tsai Chief Financial Officer : David Ku

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2017 and 2016

(Amounts in thousands of New Taiwan Dollars)

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

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

Chairman : Ming-Kai Tsai　　President : Lih-Shyng Tsai　　Chief Financial Officer : David Ku

1. Organization and Operation

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

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

The consolidated financial statements were authorized for issue in accordance with a resolution of the Board of Directors on March 23, 2018.

3. Newly Issued or Revised Standards and Interpretations

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

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

(2) Standards or interpretations issued, revised or amended, which are recognized by FSC, but not yet adopted by the Company as at the end of the reporting period are listed below:

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

(To be continued)

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

(Continued)

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

A. IFRS 15 "Revenue from Contracts with Customers"

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

Step 1：Identify the contracts with a customer;
Step 2：Identify the performance obligations in the contract;
Step 3：Determine the transaction price;

Step 4：Allocate the transaction price to the performance obligations in the contracts;
Step 5：Recognize revenue when the entity satisfies a performance obligation.

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

B. IFRS 9 “Financial Instruments”

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

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

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

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

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

C. IFRS 15 “Revenue from Contracts with Customers” (Clarification)
The amendments clarify how to identify a performance obligation in a contract, determine whether an entity is a principal or an agent, and determine whether the revenue from granting a license should be recognized at a point in time or over time.

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

IAS 28 “Investments in Associates and Joint Ventures”
The amendments clarify that when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and other qualifying entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with IFRS 9 “Financial Instruments” on an investment-by-investment basis. Besides, if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries on an investment-by-investment basis.

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

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

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

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

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

(B) In accordance with the requirements of IFRS 15, more extensive disclosure would have to be made.

B. IFRS 9 "Financial Instruments"

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

(A) Classification and measurement of financial assets

Available-for-sale financial assets – equity instrument investments
The assessment of the cash flow characteristics will be based on the facts and circumstances that existed as at the date of initial application.

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

(a) The equity instrument investments currently measured at cost in accordance with IAS 39 of NT$12,334,155 thousand had an original cost of NT$13,617,769 thousand, among which NT$1,283,614 thousand were impaired. However, in accordance with the requirement of IFRS 9, equity instrument investments must be measured at fair value but are not required to be assessed for impairment. The estimated fair value of the equity instrument investments were NT$14,219,155 thousand as at the date of initial application. The Company will reclassify financial assets measured at cost to financial assets measured at fair value through other comprehensive income of NT$12,334,155 thousand and will also adjust and increase the carrying amount to NT$14,219,155 thousand, as well as increasing retained earnings and other equity by NT$1,283,614 thousand and NT$601,386 thousand at the date of initial application, respectively.

(b) The equity instrument investments currently measured at cost in accordance with IAS 39 of NT$301,147 thousand, in accordance with the requirement of IFRS9, must be measured at fair value but are not required to be assessed for impairment. The estimated fair value of the equity instrument investments was NT$495,038 thousand as at the date of initial application. The Company will reclassify financial assets measured at cost to financial assets at fair value through profit or loss of NT$301,147 thousand and will also adjust and increase the carrying amount to NT$495,038 thousand, as well as increasing retained earnings by NT$193,891 thousand at the date of initial application.

(c) The equity instrument investments of NT$25,846,271 thousand are currently measured at fair value. As the date of initial application, except for the reclassification to financial assets measured at fair value through other comprehensive income and other equity accounts, no other difference will incur.

Available-for-sale financial assets – fund investments

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

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

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

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

Impairment of financial assets

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

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

(B) Investments accounted for using the equity method

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

(C) Others

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

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

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

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

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

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

A. IFRS 16 “Leases”
The new standard requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions). Lessor accounting still uses the dual classification approach: operating lease and finance lease.

B. IFRIC 23 “Uncertainty Over Income Tax Treatments”
The Interpretation clarifies application of recognition and measurement requirements in IAS 12 “Income Taxes” when there is uncertainty over income tax treatments.

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

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

4. Summary of Significant Accounting Policies

Statement of Compliance

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

Basis of Preparation

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

Basis of Consolidation

Preparation principle of consolidated financial statement

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

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

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

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

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

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

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

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

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

If loses control of a subsidiary, it:

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.

The consolidated entities are listed as follows:

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

(To be continued)

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

(Continued)

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

(To be continued)

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

(Continued)

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

(To be continued)

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

(Continued)

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

(To be continued)

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

(Continued)

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

(To be continued)

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

(Continued)

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

(To be continued)

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

(Continued)

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

(To be continued)

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

(Continued)

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

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership December 31, 2017	Percentage of Ownership December 31, 2016	Note
MediaTek (Shanghai) Inc.	Shanghai ShanShengChuangXin Investment Partnership (Limited Partnership)	General investing	-	2%	25
Nephos Cayman Co. Limited	Nephos (Hefei) Co. Ltd.	Research, manufacturing and sales	63%	100%	26

1. For the purpose of reorganization, the 100% ownership of T-Rich Technology (Cayman) Corp., which was previously owned by MTK, was transferred to Hsu-Si Investment Corp. in June 2017. After that, T-Rich Technology (Cayman) Corp. was renamed Airoha (Cayman) Inc.
2. MTK established HFI Innovation Inc. in February 2016.
3. Hsu-Si Investment Corp. ("Hsu-Si Investment") accomplished the tender offer and acquired 40% shares of Airoha Technology Corp. ("Airoha") in March 2017. A control over Airoha was obtained and therefore all the subsidiaries of Airoha were included in the consolidated entities thereafter. In July 2017, Hsu-Si Investment acquired the remaining 38% ownership of Airoha. Moreover, Hsu-Si acquire 5% and 17% shares of Airoha from Hsu-Ta Investment Corp. and MediaTek Capital Corp., respectively. Furthermore, MTK spun-off the business unit –Bluetooth related Internet of Things Product Line Business to Airoha, and acquired 7% new shares of the capital increase of Airoha in October 2017.
4. Hsu-Si Investment accomplished the take-over bid process to acquire 51% shares of Richtek Technology Corp. ("Richtek") in October 2015. Hsu-Si Investment obtained control over Richtek. Subsidiaries of Richtek were included in the consolidated entities thereafter. In April 2016, Hsu-Si Investment acquired the remaining 49% ownership of Richtek.
5. Airoha (Cayman) Inc. established Airotek (Shenzhen) Inc. and Airotek (Chengdu) Inc. in September 2017.
6. For the purpose of reorganization, Hesine Technologies International Worldwide Inc. has been liquidated in November 2017.
7. Gaintech Co. Limited established Dynamic Presence Limited in April 2016.
8. 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.
9. Gaintech Co. Limited established Zelus Technology (HangZhou) Ltd. in October 2017.
10. MediaTek (Shanghai) Inc. was renamed Xuxin Investment (Shanghai) Inc. in March 2016.
11. For the purpose of reorganization, MediaTek Denmark Aps has been liquidated and returned the capital in May 2017.
12. For the purpose of reorganization, Hesine Technologies, Inc. has been liquidated in June 2017.
13. EcoNet (Cayman) Inc. established EcoNet Limited in October 2016. For the purpose of reorganization, the 100% ownership of EcoNet Limited, which was previously owned by EcoNet (Cayman) Inc., was transferred to EcoNet (Suzhou) Limited in December 2017.

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

Foreign currency transactions

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

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.

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.

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).

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.

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.

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.

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.

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.

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 though 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.

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.

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

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

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

Property, plant and equipment

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

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

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.

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.

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.

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.

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.

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

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

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

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

Income taxes

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

A. Current income tax

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

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

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.

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.

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.

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

C. Income tax

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

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

D. Revenue recognition - sales returns and discounts

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

6. Contents of Significant Accounts

(1) Cash and cash equivalents

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

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.

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

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

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

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

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

(3) Available-for-sale financial assets

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

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

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

Available-for-sale financial assets were not pledged.

(4) Financial assets measured at cost

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

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

Financial assets measured at cost were not pledged.

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

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

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

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

(6) Trade receivables

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

Trade receivables were not pledged.

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

	Individually impaired	Collectively impaired	Total
As of January 1, 2017	$ -	$ 294,701	$ 294,701
Charge for the current period	-	52,612	52,612
Write-off for uncollectable accounts	-	(10,702)	(10,702)
Exchange differences	-	(4,627)	(4,627)
As of December 31, 2017	$ -	$ 331,984	$ 331,984

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

	Individually impaired	Collectively impaired	Total
As of January 1, 2016	$ -	$ 363,564	$ 363,564
Reversal for the current period	-	(125,735)	(125,735)
Write-off for uncollectable accounts	-	(9,484)	(9,484)
Acquired through business combinations	-	66,452	66,452
Exchange differences	-	(96)	(96)
As of December 31, 2016	$ -	$ 294,701	$ 294,701

Aging analysis of trade receivables were as follows:

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

The Company entered into several factoring agreements without recourse with financial institutions. According to those agreements, the Company does not take the risk of uncollectible trade receivables, but only the risk of loss due to commercial disputes. The Company did not provide any collateral, and the factoring agreements met the criteria of financial asset derecognition. The Company derecognized related trade receivables after deducting the estimated value of commercial disputes. Receivables from banks due to factoring agreement were NT$2,515,843 thousand and NT$2,084,674 thousand as of December 31, 2017 and 2016, respectively.

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

A. As of December 31, 2017:

The Factor (Transferee)	Interest rate	Trade receivables derecognized (US$'000)	Cash withdrawn (US$'000)	Unutilized (US$'000)	Credit line (US$'000)
Taishin International Bank	-	$ 57,076	$ -	$ 57,076	$ 99,000
BNP Paribas	-	12,587	-	12,587	107,000
HSBC	-	11	-	11	350
Taipei Fubon Commercial Bank	-	14,615	-	14,615	15,000
Total		$ 84,289	$ -	$ 84,289	$ 221,350

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

B. As of December 31, 2016:

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

(7) Inventories

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

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

Inventories were not pledged.

(8) Prepayments

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

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

(9) Investments accounted for using the equity method

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

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

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

Subsidiary Hsu-Si Investment acquired 24,230,620 shares (approximately 40% of Airoha's issued shares) of Airoha through a tender offer for the three months ended March 31, 2017. The price of the tender offer was NT$110 per share and the total amount paid in cash amounted to NT$2,665,368 thousand. Hsu-Si Investment obtained control over Airoha in March 2017 and Airoha was included in the consolidated entities thereafter. Please refer to Note 6. (29) for more details.

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

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

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

(1) Investments in associates

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

(2) Investments in jointly controlled entities

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

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(10) Property, plant and equipment

	Land	Buildings and facilities	Machinery equipment	Computer and telecommunication equipment	Testing equipment	Miscellaneous equipment	Construction in progress and equipment awaiting examination	Total
Cost:								
As of January 1, 2017	$ 5,108,639	$21,282,705	$ 1,210,479	$ 5,000,627	$ 6,861,389	$ 2,284,831	$ 6,036,276	$ 47,784,946
Additions-acquired separately	86,980	593,228	100,699	1,077,842	1,000,815	442,229	784,097	4,085,890
Additions-acquired through business combinations	-	-	98,294	-	-	16,906	-	115,200
Disposals	-	(4,356)	(4,859)	(327,897)	(209,998)	(487,995)	(17,371)	(1,052,476)
Transfers	1,089	5,449,594	25,376	(4,287)	(22,398)	91,768	(5,885,816)	(344,674)
Exchange differences	(3)	(108,553)	(4,936)	(56,868)	(27,634)	(42,110)	(70,760)	(310,864)
As of December 31, 2017	$ 5,196,705	$27,212,618	$ 1,425,053	$ 5,689,417	$ 7,602,174	$ 2,305,629	$ 846,426	$ 50,278,022
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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

	Land	Buildings and facilities	Machinery equipment	Computer and telecommunication equipment	Testing equipment	Miscellaneous equipment	Construction in progress and equipment awaiting examination	Total
Depreciation and impairment:								
As of January 1, 2017	$ -	$ 2,903,910	$ 271,703	$ 2,772,783	$ 3,700,970	$ 1,277,840	$ -	$ 10,927,206
Depreciation	-	657,038	263,512	989,383	1,038,710	591,237	-	3,539,880
Disposals	-	(3,442)	(4,683)	(316,705)	(204,754)	(480,093)	-	(1,009,677)
Transfers	-	(10,797)	6,597	(4,276)	(25,139)	615	-	(33,000)
Exchange differences	-	(3,160)	(1,387)	(33,420)	(13,518)	(33,542)	-	(85,027)
As of December 31, 2017	$ -	$ 3,543,549	$ 535,742	$ 3,407,765	$ 4,496,269	$ 1,356,057	$ -	$ 13,339,382
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
Net carrying amount as of:								
December 31, 2017	$ 5,196,705	$23,669,069	$ 889,311	$ 2,281,652	$ 3,105,905	$ 949,572	$ 846,426	$ 36,938,640
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

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

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

(11) Investment property

	Land	Buildings	Total
Cost:			
As of January 1, 2017	$ 199,661	$ 490,073	$ 689,734
Addition	-	1,436	1,436
Transfers	1,875	253,368	255,243
Exchange differences	-	(5,603)	(5,603)
As of December 31, 2017	$ 201,536	$ 739,274	$ 940,810
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	$ 199,661	$ 490,073	$ 689,734
Depreciation and impairment:			
As of January 1, 2017	$ -	$ 38,326	$ 38,326
Depreciation	-	18,142	18,142
Transfers	-	10,915	10,915
Exchange differences	-	(224)	(224)
As of December 31, 2017	$ -	$ 67,159	$ 67,159
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	$ -	$ 38,326	$ 38,326
Net carrying amount as of:			
December 31, 2017	$ 201,536	$ 672,115	$ 873,651
December 31, 2016	$ 199,661	$ 451,747	$ 651,408

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

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

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

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

Based on comparative approach:	December 31, 2017	December 31, 2016
Fair value	$ 1,136,818	$ 697,311

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(12) Intangible assets

	Trademarks	Software	Customer relationship	Patents, IPs and others	Goodwill	Total
Cost:						
As of January 1, 2017	$ 772,487	$ 2,015,534	$ 5,114,146	$ 8,716,232	$ 63,386,805	$ 80,005,204
Additions-acquired separately	-	934,627	-	3,418,503	-	4,353,130
Additions-acquired through business combinations	-	53,514	-	1,304,913	2,039,366	3,397,793
Disposals	-	(26,983)	-	(3,606,986)	-	(3,633,969)
Transfers	-	1,848	-	-	64,130	65,978
Exchange differences	-	(1,407)	-	(189,747)	(43,376)	(234,530)
As of December 31, 2017	$ 772,487	$ 2,977,133	$ 5,114,146	$ 9,642,915	$ 65,446,925	$ 83,953,606
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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

	Trademarks	Software	Customer relationship	Patents, IPs and others	Goodwill	Total
Amortization and impairment:						
As of January 1, 2017	$ 279,595	$ 1,549,914	$ 1,441,288	$ 4,719,853	$ -	$ 7,990,650
Amortization	112,599	520,212	676,979	2,342,537	-	3,652,327
Disposals	-	(26,396)	-	(3,606,986)	-	(3,633,382)
Exchange differences	-	1,238	-	(86,307)	-	(85,069)
As of December 31, 2017	$ 392,194	$ 2,044,968	$ 2,118,267	$ 3,369,097	$ -	$ 7,924,526
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
Net carrying amount as of:						
December 31, 2017	$ 380,293	$ 932,165	$ 2,995,879	$ 6,273,818	$ 65,446,925	$ 76,029,080
December 31, 2016	$ 492,892	$ 465,620	$ 3,672,858	$ 3,996,379	$ 63,386,805	$ 72,014,554

(13) Impairment testing of goodwill

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

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

Key assumptions used in value-in-use calculations

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

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

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

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

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

Sensitivity to changes in assumptions

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

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

(14) Long-term lease receivables

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

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

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

There were no long-term lease receivables for the year ended December 31, 2017.

(15) Short-term borrowings

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

(16) Other payables

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

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

(17) Long-term borrowings

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

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

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

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

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

(18) Post-employment benefits plans

Defined contribution plan

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

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

Defined benefits plan

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

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

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

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

Pension costs recognized in profit or loss are as follows:

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

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

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

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

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

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

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

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

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

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

Sensitivity analysis for significant assumption are shown below:

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

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

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

(19) Equity

A. Share capital

MTK's authorized capital as of December 31, 2017 and 2016 was NT$20,000,000 thousand, divided into 2,000,000,000 shares (including 20,000,000 shares reserved for exercise of employee stock options at each period), each at a par value of NT$10. MTK's issued capital was NT$15,814,140 thousand, and NT$15,821,122 thousand, divided into 1,581,413,973 shares, and 1,582,112,191 shares as of December 31, 2017 and 2016, respectively. Each share has one voting right and a right to receive dividends.

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

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

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

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

B. Capital surplus

	December 31, 2017	December 31, 2016
Additional paid-in capital	$ 83,765,699	$ 85,867,533
Treasury share transactions	1,529,750	1,455,706
Changes in ownership interests in subsidiaries	1,146,807	176,894
Donated assets	1,261	1,261
From share of changes in net assets of associates	4,326	29,475
Employee stock options	498,474	513,409
Restricted stocks for employees	1,129,630	1,660,064
Others	134,872	111,014
Total	$ 88,210,819	$ 89,815,356

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

C. Treasury shares

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

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

D. Retained earnings and dividend policy

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

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

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

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

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

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

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

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

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

Details of the 2016 and 2015 earnings distribution and dividends per share as resolved by general shareholders' meeting on June 15, 2017 and June 24, 2016, respectively, are as follows:

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

In addition, the general shareholders' meeting on June 15, 2017 resolved to distribute the paid in capital by cash in the amount of NT$2,372,405 thousand or NT$1.5 per share.

E. Non-controlling interests

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

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

(20) Share-based payment plans

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

Share-based payment plans in MTK

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

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

Date of grant	Total number of options granted	Total number of options outstanding	Shares available for option holders	Exercise price (NT$) (Note)
2008.03.31	1,134,119	229,086	229,086	$ 355.5
2008.08.28	1,640,285	406,851	406,851	342.1
2009.08.18	1,382,630	487,756	487,756	426.5
2010.08.27	1,605,757	621,001	621,001	402.0
2010.11.04	65,839	8,134	8,134	374.4
2011.08.24	2,109,871	1,038,401	1,038,401	275.5
2012.08.14	1,346,795	832,714	832,714	284.8
2013.08.22	1,436,343	1,057,160	1,057,160	368.0

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

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

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

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

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

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

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

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

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

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

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

Restricted stocks plan for employees of MTK

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

MTK has issued 10,528,505 and 300,000 gratuitous restricted stocks on September 6, 2016 and July 17, 2017, respectively. The issuance process was granted effective registration by the securities authority.

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

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

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

Share-based payment plans of Subsidiaries

In November 2014, Board of Directors of EcoNet (Cayman) Inc. resolved to issue employee stock options with a total number of 1,235,388 units, each unit eligible to subscribe for one common share of EcoNet (Cayman) Inc. The options may be granted to qualified employees of EcoNet (Cayman) Inc. and its subsidiaries. The aforementioned units of employee stock options have been exercised in full as of December 31, 2017. The total numbers of outstanding stock options were 859,848 units as of December 31, 2016.

Subsidiaries Cash-settled Share-based Payment Transactions

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

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

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

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

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

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

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

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

Share-based payment plans of Subsidiaries

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

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

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

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

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

(21) Sales

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

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

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

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

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

MTK accrued employees' compensation and remuneration to directors based on a specific rate of profit of the year ended December 31, 2017. If the estimated amounts differ from the actual distribution resolved by the Board of Directors, MTK will recognize the change as an adjustment to income of next year. If the Board of Directors resolves to distribute employees' compensation in stock, the number of shares distributed is determined by dividing the amount of bonuses by the closing price (after considering the effect of cash and stock dividends) of shares on the day preceding the Board of Directors' meeting. A resolution was approved in a meeting of the Board of Directors held on March 23, 2018 to distribute NT$298,331 thousand and NT$43,799 thousand in cash as employees' compensation and remuneration to directors, respectively. There were no material differences between the aforementioned approved amounts and the amounts charged against earnings in 2017.

A resolution was approved in a meeting of the Board of Directors held on March 22, 2017 to distribute NT$309,130 thousand and NT$42,661 thousand in cash as employees' compensation and remuneration to directors, respectively. There were no material differences between the aforementioned approved amounts and the amounts charged against earnings in 2016.

(23) Other income

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

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

(24) Other gains and losses

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

(25) Finance costs

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

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

(26) Components of other comprehensive income

For the year ended December 31, 2017：

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

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

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 gains (losses) from available-for-sale financial assets	11,200,973	96,624	11,297,597	(1,172,986)	10,124,611
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	125,345	-	125,345	-	125,345
Total of other comprehensive income	$ 6,756,716	$ 96,624	$ 6,853,340	$ (1,161,922)	$ 5,691,418

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

(27) Income tax

The major components of income tax expense are as follows:

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

Income tax recognized in other comprehensive income

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

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

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

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

For the year ended December 31, 2017

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

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)		$ 219,062	$(1,161,922)	$ -	$ -	
Net deferred tax assets	$ 1,183,106					$ 240,246
Reflected in balance sheet as follows:						
Deferred tax assets	$ 2,997,362					$ 3,265,695
Deferred tax liabilities	$ (1,814,256)					$(3,025,449)

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

Integrated income tax information

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

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

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

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

The assessment of income tax returns

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

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

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

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

(28) Earnings per share

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

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

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

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

Note: There were no dilutive employee stock options for the year ended December 31, 2016.

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

(29) Business combinations

The merger with Richtek Technology Corp.

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

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

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

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

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

	Fair value recognized on the acquisition date
Cash and cash equivalents	$ 1,743,522
Current assets	5,598,331
Funds and investments	116,005
Property, plant and equipment	3,653,938
Intangible assets- patent, trademark and customer relationship	3,935,255
Other non-current assets	453,858
	15,500,909
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 was mainly the value of expected synergies arising from acquisition.

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

The merger with ILI Technology Corp.

Subsidiary MStar Semiconductor, Inc. ("MStar Taiwan") established Mrise Tech. in July 2015. Further, on October 26, 2015, the extraordinary shareholders' meeting of ILI Tech. and the Board of Directors of Mrise Tech. (on behalf of its shareholders) resolved to acquire and merge ILI Tech. at a price of NT$51 in cash for each common share of ILI Tech. After the merger, ILI Tech. would be dissolved and Mrise Tech. would be renamed ILI Tech. In April 2016, the merger was approved by the Ministry of Commerce of the People's Republic of China. In addition, on April 14, 2016, both companies' Board of Directors approved the merger date to be June 1, 2016.

ILI Tech. is a TFT-LCD and LTPS driver IC design company. MStar Taiwan mainly engages in TV and monitors SoC business. After the merger, both companies can enhance their competitiveness by increasing scale of operations and integrating resources. In long term, the merger will bring in higher net equity and earnings per share.

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

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

Goodwill of ILI Tech. is as follows:

	Amount
Cash consideration	$ 3,642,682
Less: identifiable net assets at fair value	(3,578,391)
Goodwill	$ 64,291

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

Cash flows on acquisition:

	Amount
Net cash acquired from the subsidiary	$ 1,236,304
Transaction costs attributable to cash paid	(3,642,682)
Net cash flow-out on acquisition	$ (2,406,378)

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

If the combination had taken place on January 1, 2016, revenues and net income of the Company for the year ended December 31, 2016 would have been NT$278,643,064 thousand and NT$24,090,459 thousand, respectively.

The merger with Airoha Technology Corp.

On February 10, 2017, the Board of Directors of subsidiary of Hsu-Si Investment approved a tender offer to acquire shares of Airoha. The terms of the offer was NT$110 in cash for each common share of Airoha. Hsu-Si Investment completed the tender offer and paid NT$2,665,368 thousand in cash to acquire 40% of the shares of Airoha and had control over it on March 14, 2017. The original 23% interest of Airoha acquired before the merger, recognized as investments accounted for using the equity method, was remeasured at fair value and the difference was recognized as a gain. In the same year, Hsu-Si Investment paid NT$110 in cash per share for the rest of 60% shares of Airoha. Consequently, the ownership interest in Airoha changed but control over it remained. The difference between the cash payment to the non-controlling shareholders' common shares and the carrying amount of Airoha's 60% shares was recognized under the equity.

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

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

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

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

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

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

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

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

The goodwill of NT$2,039,366 thousand was mainly the value of expected synergies arising from acquisition.

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

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

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

(30) Non-current assets held for sale

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

	As of December 31, 2016
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
	3,633,726
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)
	(675,043)
Net carrying amount of the disposal group	$ 2,958,683

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

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

(31) Changes in ownership interests in subsidiaries

Changes in ownership of subsidiaries

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

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

7. Related Party Transactions

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

Name and nature of relationship of the related parties

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

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

Note 2：Shenzhen Huiding Technology Co., Ltd. became a listed company in Shanghai Stock Exchange on October 17, 2016. Investment in Shenzhen Huiding Technology Co., Ltd. accounted for using the equity method was reclassified to available-for-sale financial assets as the Company lost significant influence over it, and it was no longer an associate.

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

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

Significant transactions with the related parties

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

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

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

(2) Consign research and development expenses and license expenses

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

(3) Purchases

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

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

(4) Rental income

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

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

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

(5) Other receivables from related parties

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

(6) Trade payables to related parties

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

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

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

(8) Key management personnel compensation

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

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

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

8. Assets Pledged as Collateral

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

	Carrying amount		
Assets pledged as collateral	December 31, 2017	December 31, 2016	Purpose of pledge
Debt instrument investments for which no active market exists-current	$ 9,180	$ 9,180	Customs clearance deposits
Debt instrument investments for which no active market exists-current	9,705	9,705	Lease execution deposits
Debt instrument investments for which no active market exists-current	360	-	Performance bond
Debt instrument investments for which no active market exists-noncurrent	-	3,152	Customs clearance deposits
Debt instrument investments for which no active market exists-noncurrent	528	537	Customs clearance deposits
Debt instrument investments for which no active market exists-noncurrent	117	118	Lease execution deposits
Debt instrument investments for which no active market exists-noncurrent	-	200,000	Project performance deposits
Debt instrument investments for which no active market exists-noncurrent	39,000	-	Court pledged
Debt instrument investments for which no active market exists-noncurrent	24,234	24,157	Customs clearance deposits
Debt instrument investments for which no active market exists-noncurrent	23,018	22,964	Land lease guarantee
Debt instrument investments for which no active market exists-noncurrent	7,000	7,000	Land lease guarantee
Debt instrument investments for which no active market exists-noncurrent	1,000	-	Customs clearance deposits
Debt instrument investments for which no active market exists-noncurrent	3,175	-	Customs clearance deposits
Debt instrument investments for which no active market exists-noncurrent	9,808	-	Lease execution deposits
Property, plant and equipment - buildings	331,050	427,962	Long-term borrowing
Property, plant and equipment - buildings and land	331,506	336,578	Long-term borrowing
Investment Property-buildings	79,745	-	Long-term borrowing
Total	$ 869,426	$ 1,041,353	

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

9. Contingencies and Off Balance Sheet Commitments

(1) Operating lease commitments-the Company as lessee

The Company has entered into commercial lease contracts with terms of one to fifty years.

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

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

Operating lease expenses are as follows:

	For the years ended December 31	
	2017	2016
Minimum lease payments	$ 830,791	$ 892,330

(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 court dismissed the claims with prejudice against MTK and MediaTek USA Inc. pursuant to the parties' joint motion on November 29, 2017.

B. Mariner IC Inc. ("Mariner") filed a complaint in the United States District Court for the Eastern District of Texas against MTK and subsidiary MediaTek USA Inc. on April 25, 2016, alleging infringement of United States Patent Nos. 5,560,666 and 5,846,874. The court dismissed the claims with prejudice against MTK and MediaTek USA Inc. pursuant to the parties' joint stipulation on May 17, 2017.

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

D. ZiiLabs Inc. Ltd. ("ZiiLabs") filed a complaint with the Commission against MTK and subsidiary MediaTek USA Inc. on December 16, 2016 alleging infringement of United States Patent Nos. 6,677,952, 6,950,350, 7,518,616, 8,643,659. The Commission issued an Initial Determination to terminate the investigation as to MediaTek USA Inc. on June 19, 2017. On August 28, 2017, the Commission issued an Initial Determination to terminate the investigation.

Also on December 16, 2016, ZiiLabs filed a complaint in the United States District Court for the Eastern District of Texas against MTK and subsidiary MediaTek USA Inc., alleging infringement of the above referenced patents. The court dismissed the claims with prejudice against MTK and MediaTek USA Inc. pursuant to the parties' joint motion on August 10, 2017.

E. Advanced Micro Devices, Inc. and ATI Technologies ULC (collectively "AMD") filed a complaint with the Commission against MTK and subsidiary MediaTek USA Inc. on January 24, 2017 alleging infringement of United States Patent Nos. 7,633,506, 7,796,133, 8,760,454, and 9,582,846. The operations of MTK and subsidiary MediaTek USA Inc. would not be materially affected by this case.

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

   Also on March 7, 2017, Broadcom filed a complaint in the United States District Court for the Central District of California against MTK and subsidiary MediaTek USA Inc., alleging infringement of United States Patent Nos. 8,284,844, 7,590,059, 7,310,104, and 7,342,967; and against subsidiary MStar Taiwan alleging infringement of United States Patent Nos. 8,284,844, 7,590,059, 8,068,171, and 7,310,104. The court dismissed the claims with prejudice against MTK, MediaTek USA Inc., and MStar Taiwan pursuant to the parties' joint stipulations on November 8, 2017.

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

H. Wireless Switch IP, LLC ("Wireless Switch") filed a complaint in the United States District Court for the Northern District of California against MTK and subsidiary MediaTek USA Inc. on July 25, 2017, alleging infringement of United States Patent Nos. 7,356,351 and 7,647,070. The court dismissed the claims against MTK and MediaTek USA Inc. on October 5, 2017.

I. Lucio Development LLC ("Lucio Development") filed a complaint in the United States District Court for the Western District of Texas against subsidiary MediaTek USA Inc. on December 11, 2017, alleging infringement of United States Patent No. 7,069,546. The operations of MTK and subsidiary MediaTek USA Inc. would not be materially affected by this case.

The Company will handle these cases carefully.

10. Losses due to Major Disasters

None

11. Significant Subsequent Events

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

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

12. Others

(1) Financial instruments

A. Categories of financial instruments

Financial assets

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

Financial liabilities

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

B. Fair values of financial instruments

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

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

(a) The carrying amount of cash and cash equivalents, trade receivables, other receivables, short-term borrowings, trade payables (including related parties) and other payables approximate their fair value due to their short maturities.

(b) For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities and bonds) at the reporting date.

(c) The fair value of derivative financial instrument is based on market quotations. For unquoted derivatives that are not options, the fair value is determined based on discounted cash flow analysis using interest rate yield curve for the contract period. Fair value of option-based derivative financial instruments is obtained using the option pricing model.

(d) The fair value of other financial assets and liabilities is determined using discounted cash flow analysis; the interest rate and discount rate are selected with reference to those of similar financial instruments.

b. Fair value of financial instruments measured at amortized cost

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

c. Fair value measurement hierarchy

(a) Fair value measurement hierarchy

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

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

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

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

Level 3: Unobservable inputs for the assets or liabilities.

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

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

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

As of December 31, 2017

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

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

As of December 31, 2016

	Level 1	Level 2	Level 3	Total
Financial assets:				
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				
Depositary 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	$ 11,975,764	$ 15,752,751	$ 7,582,471	$ 35,310,986

	Level 1	Level 2	Level 3	Total
Financial liabilities:				
Financial liabilities at fair value through profit or loss				
Derivative financial instruments	$ -	$ 45,098	$ -	$ 45,098

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

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

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

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

	Financial assets at fair value through profit or loss		Available-for-sale financial assets			
	Bonds	Linked deposits	Bonds	Funds	Stocks	Total
As of January 1, 2017	$ 646,029	$ 3,807,617	$ 2,306,190	$ 789,934	$ 32,701	$ 7,582,471
Amount recognized in profit or loss	36,939	59,741	7,008	28,639	-	132,327
Amount recognized in OCI	-	-	67,287	-	-	67,287
Amount recognized in OCI- exchange differences	(7,605)	(236,598)	(97,203)	(9,601)	-	(351,007)
Acquisitions	-	1,073,991	3,874,204	1,949,531	-	6,897,726
Settlements	-	(751,066)	(2,159,452)	(1,813,554)	-	(4,724,072)
As of December 31, 2017	$ 675,363	$ 3,953,685	$3,998,034	$ 944,949	$ 32,701	$ 9,604,732

	Financial assets at fair value through profit or loss		Available-for-sale financial assets			
	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

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

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

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

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

As of December 31, 2017:

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

As of December 31, 2016:

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

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

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

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

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

As of December 31, 2017

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

As of December 31, 2016

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

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:

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

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

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

(2) Financial risk management objectives and policies

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

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

A. Market risk

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

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

a. Foreign currency risk

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

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

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

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

b. Interest rate risk

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

The interest rate sensitivity analysis is performed on items exposed to interest rate risk as of the end of the reporting period, including investments and bank borrowings with variable interest rates. At the reporting date, an increase/decrease of 10 basis points of interest rate in a reporting period could cause the profit for the years ended December 31, 2017 and 2016 to increase/decrease by NT$6,545 thousand and NT$11,188 thousand, respectively.

c. Other price risk

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

A change of 1% in the price of the listed equity securities classified under available-for-sale could cause the other comprehensive income for the years ended December 31, 2017 and 2016 to increase/decrease by NT$289,747 thousand and NT$196,146 thousand, respectively.

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

B. Credit risk management

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

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

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

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.

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

Non-derivative financial instruments

	Less than 1 year	1 to 5 years	Less than 5 years	Total
As of December 31, 2017				
Short-term borrowings	$ 64,451,953	$ -	$ -	$ 64,451,953
Trade payables (including related parties)	23,584,452	-	-	23,584,452
Other payables	35,719,573	-	-	35,719,573
Long-term borrowings	42,235	232,037	121,574	395,846
Long-term payables	-	1,726,364	-	1,726,364
Total	$ 123,798,213	$ 1,958,401	$ 121,574	$ 125,878,188
As of December 31, 2016				
Short-term borrowings	$ 54,581,331	$ -	$ -	$ 54,581,331
Trade payables (including related parties)	24,630,117	-	-	24,630,117
Other payables	33,913,282	-	-	33,913,282
Long-term borrowings	24,755	292,370	126,129	443,254
Total	$ 113,149,485	$ 292,370	$ 126,129	$ 113,567,984

Derivative financial instruments

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

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

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

(3) Significant assets and liabilities denominated in foreign currencies

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

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

	December 31, 2016		
	Foreign Currency (thousand)	Exchange rate	NT$ (thousand)
Financial assets			
Monetary item:			
USD	$ 4,445,288	32.279	$ 143,489,389
CNY	$ 895	4.647	$ 4,163
Non-monetary item:			
USD	$ 896,434	32.279	$ 28,935,990
CNY	$ 1,548,281	4.647	$ 7,194,350
Financial liabilities			
Monetary item:			
USD	$ 3,511,854	32.279	$ 113,359,152
CNY	$ 112	4.647	$ 520

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

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

(4) Capital management

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

13. Segment Information

(1) General information

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

(2) Geographical information

A. Sales to other than consolidated entities

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

Sales are presented by customers' country.

B. Non-current assets

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

(3) Major customers

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

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, 2017 AND 2016

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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, 2017 and 2016, and the related parent company only statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2017 and 2016, 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, 2017 and 2016, and its financial performance and cash flows for the years ended December 31, 2017 and 2016, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

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 2017 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. recognized NT$92,525,183 thousand as net sales, which includes sale of goods in the amount of NT$100,110,489 thousand, other operating revenues in the amount of NT$2,809,722 thousand, and sales returns and discounts in the amount of NT$10,395,028 thousand for the year ended December 31, 2017. Sale of goods are mainly sales of chips. Due to large transaction volume, an improper timing of revenue recognition may 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; performing cutoff testing, on a sampling basis, for a period before and after the reporting date, and analyzing the reasonableness of fluctuations. Besides, we also review if there are significant revenue reversals in subsequent periods.

We also considered the appropriateness of the disclosures of sales. Please refer to Note 6 in notes to 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 2017 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.

/s/Kuo, Shao-Pin

/s/Fuh, Wen-Fun

Ernst & Young
CERTIFIED PUBLIC ACCOUNTANTS
March 23, 2018
Taipei, Taiwan
Republic of China

Notice to Readers

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

The accompanying 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.

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC.

PARENT COMPANY ONLY BALANCE SHEETS

As of December 31, 2017 and 2016

(Amounts in thousands of New Taiwan Dollars)

ASSETS	Notes	December 31, 2017	%	December 31, 2016	%
Current assets					
Cash and cash equivalents	4, 6(1)	$ 77,148,536	24	$ 60,244,970	20
Financial assets at fair value through profit or loss-current	4, 5, 6(2)	-	-	492,707	-
Available-for-sale financial assets-current	4, 5, 6(3)	1,611,554	-	2,198,973	1
Debt instrument investments for which no active market exists-current	4, 6(4), 8	18,885	-	18,885	-
Trade receivables, net	4, 5, 6(5)	5,061,460	2	5,806,427	2
Trade receivables from related parties	4, 6(5), 7	600,158	-	339,275	-
Other receivables	6(5), 7	3,428,577	1	5,346,492	2
Current tax assets	4, 5, 6(23)	-	-	252,867	-
Inventories, net	4, 5, 6(6)	6,842,887	2	14,313,326	5
Prepayments	6(7)	378,547	-	298,982	-
Other current assets		1,470,954	-	1,310,071	-
Total current assets		96,561,558	29	90,622,975	30
Non-current assets					
Financial assets at fair value through profit or loss-noncurrent	4, 5, 6(2)	190,211	-	190,257	-
Available-for-sale financial assets-noncurrent	4, 5, 6(3)	2,711,660	1	3,577,034	1
Debt instrument investments for which no active market exists-noncurrent	4, 6(4), 8	352,018	-	22,964	-
Investments accounted for using the equity method	4, 6(8)	183,569,248	57	167,983,555	55
Property, plant and equipment	4, 6(9)	12,425,597	4	12,331,165	4
Intangible assets	4, 6(10), 6(11)	29,449,574	9	28,504,894	9
Deferred tax assets	4, 5, 6(23)	1,819,117	-	1,541,960	1
Refundable deposits		78,326	-	65,942	-
Total non-current assets		230,595,751	71	214,217,771	70
Total assets		$ 327,157,309	100	$ 304,840,746	100

The accompanying notes are an integral part of the parent company only financial statements.

Chairman : Ming-Kai Tsai　　President : Lih-Shyng Tsai　　Chief Financial Officer : David Ku

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC.

PARENT COMPANY ONLY BALANCE SHEETS

As of December 31, 2017 and 2016

(Amounts in thousands of New Taiwan Dollars)

LIABILITIES AND EQUITY	Notes	December 31, 2017	%	December 31, 2016	%
Current liabilities					
Short-term borrowings	6(12)	$ 40,205,256	12	$ 26,791,570	9
Financial liabilities at fair value through profit or loss-current	4, 5, 6(2)	-	-	45,098	-
Trade payables		4,891,357	2	9,479,635	3
Trade payables to related parties	7	369,063	-	468,694	-
Other payables	6(13), 7	18,912,001	6	18,371,524	6
Current tax liabilities	4, 5, 6(23)	279,609	-	1,500,602	1
Other current liabilities		677,840	-	1,142,161	-
Total current liabilities		65,335,126	20	57,799,284	19
Non-current liabilities					
Long-term payables		1,044,449	-	-	-
Net defined benefit liabilities-noncurrent	4, 6(14)	481,962	-	710,590	-
Deposits received	7	49,259	-	52,993	-
Deferred tax liabilities	4, 5, 6(23)	434,870	-	1,498,969	1
Total non-current liabilities		2,010,540	-	2,262,552	1
Total liabilities		67,345,666	20	60,061,836	20
Equity					
Share capital	6(15)				
Common stock		15,814,140	5	15,821,122	5
Capital collected in advance		231	-	-	-
Capital surplus	4, 6(15), 6(16)	88,210,819	27	89,815,356	30
Retained earnings	6(15)				
Legal reserve		36,998,379	11	34,628,319	11
Undistributed earnings		100,629,197	31	92,324,282	30
Other equity	6(16)	18,214,847	6	12,245,801	4
Treasury shares	4, 6(15)	(55,970)	-	(55,970)	-
Total equity		259,811,643	80	244,778,910	80
Total liabilities and equity		$ 327,157,309	100	$ 304,840,746	100

The accompanying notes are an integral part of the parent company only financial statements.

Chairman : Ming-Kai Tsai　　President : Lih-Shyng Tsai　　Chief Financial Officer : David Ku

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC.

PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2017 and 2016

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

Description	Notes	2017	%	2016	%
Net sales	4, 5, 6(17), 7	$ 92,525,183	100	$ 121,097,722	100
Operating costs	4, 5, 6(6), 6(18), 7	(57,747,431)	(62)	(82,574,626)	(68)
Gross profit		34,777,752	38	38,523,096	32
Unrealized gross profit on sales		(167,992)	-	(246,645)	-
Realized gross profit on sales		73,039	-	-	-
Gross profit, net		34,682,799	38	38,276,451	32
Operating expenses	6(18), 7				
Selling expenses		(4,746,887)	(5)	(6,157,624)	(5)
Administrative expenses		(2,888,851)	(3)	(2,571,665)	(2)
Research and development expenses		(26,529,461)	(29)	(28,858,577)	(24)
Total operating expenses		(34,165,199)	(37)	(37,587,866)	(31)
Operating income		517,600	1	688,585	1
Non-operating income and expenses					
Other income	4, 6(19), 7	1,180,283	1	1,302,131	1
Other gains and losses	4, 6(20), 7	58,751	-	518,991	-
Finance costs	6(21)	(528,218)	(1)	(324,622)	-
Share of profit of subsidiaries, associates, and joint ventures accounted for using the equity method	4	22,597,776	25	22,503,615	19
Total non-operating income and expenses		23,308,592	25	24,000,115	20
Net income before income tax		23,826,192	26	24,688,700	21
Income tax income (expense)	4, 5, 6(23)	506,412	-	(988,102)	(1)
Net income		24,332,604	26	23,700,598	20
Other comprehensive income	4, 6(8), 6(14), 6(22), 6(23)				
Items that may not be reclassified subsequently to profit or loss					
Remeasurements of the defined benefit plan		236,317	-	(85,908)	-
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		(23,522)	-	17,288	-
Income tax relating to those items not to be reclassified to profit or loss		(40,174)	-	14,605	-
Items that may be reclassified subsequently to profit or loss					
Exchange differences resulting from translating the financial statements of foreign operations		(4,440,659)	(5)	(4,433,045)	(4)
Unrealized losses from available-for-sale financial assets		(400,587)	-	(274,816)	-
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		9,937,603	11	10,524,772	9
Other comprehensive income, net of tax		5,268,978	6	5,762,896	5
Total comprehensive income		$ 29,601,582	32	$ 29,463,494	25
Basic Earnings Per Share (in New Taiwan Dollars)	6(24)	$ 15.56		$ 15.16	
Diluted Earnings Per Share (in New Taiwan Dollars)	6(24)	$ 15.47		$ 15.13	

The accompanying notes are an integral part of the parent company only financial statements.

Chairman : Ming-Kai Tsai　　President : Lih-Shyng Tsai　　Chief Financial Officer : David Ku

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC.

PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2017 and 2016

(Amounts in thousands of New Taiwan Dollars)

Description	Share capital: Common stock	Share capital: Capital collected in advance	Capital surplus	Retained earnings: Legal reserve	Retained earnings: Undistributed earnings	Other equity: Exchange differences resulting from translating the financial statements of foreign operations	Other equity: Unrealized gains (losses) from available-for-sale financial assets	Other equity: Other	Treasury shares	Total equity
Balance as of January 1, 2016	$ 15,715,837	$ -	$ 88,354,178	$ 32,032,476	$ 96,476,287	$ 6,503,595	$ 1,401,323	$ -	$ (55,970)	$ 240,427,726
Appropriation and distribution of 2015 earnings:										
Legal reserve	-	-	-	2,595,843	(2,595,843)	-	-	-	-	-
Cash dividends	-	-	-	-	(17,287,421)	-	-	-	-	(17,287,421)
Total	-	-	-	2,595,843	(19,883,264)	-	-	-	-	(17,287,421)
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	105,285		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
Appropriation and distribution of 2016 earnings:										
Legal reserve	-	-	-	2,370,060	(2,370,060)	-	-	-	-	-
Cash dividends	-	-	-	-	(12,652,827)	-	-	-	-	(12,652,827)
Total	-	-	-	2,370,060	(15,022,887)	-	-	-	-	(12,652,827)
Cash dividends distributed from capital surplus	-	-	(2,372,405)	-	-	-	-	-	-	(2,372,405)
Profit for the year ended December 31, 2017	-	-	-	-	24,332,604	-	-	-	-	24,332,604
Other comprehensive income for the year ended December 31, 2017	-	-	-	-	172,621	(4,440,659)	9,537,016	-	-	5,268,978
Total comprehensive income	-	-	-	-	24,505,225	(4,440,659)	9,537,016	-	-	29,601,582
Share-based payment transactions	-	231	(14,935)	-	-	-	-	-	-	(14,704)
Adjustments due to dividends that subsidiaries received from parent company	-	-	74,044	-	-	-	-	-	-	74,044
The differences between the fair value of the consideration paid or received from acquiring or disposing subsidiaries and the carrying amounts of the subsidiaries	-	-	-	-	(1,210,299)	(5,524)	-	-	-	(1,215,823)
Changes in ownership interests in subsidiaries	-	-	969,913	-	-	-	-	-	-	969,913
Issuance of restricted stock for employees	(6,982)	-	(259,863)	-	32,876	-	-	878,213	-	644,244
Change in other capital surplus	-	-	(1,291)	-	-	-	-	-	-	(1,291)
Balance as of December 31, 2017	$ 15,814,140	$ 231	$ 88,210,819	$ 36,998,379	$ 100,629,197	$ (2,250,288)	$ 21,062,950	$ (597,815)	$ (55,970)	$ 259,811,643

The accompanying notes are an integral part of the parent company only financial statements.

The actual distribution of employees' compensation amounted to NT$298,331 thousand and NT$309,130 thousand and remuneration to directors amounted to NT$40,275 thousand and NT$41,733 thousand for the years ended 2017 and 2016, respectively, which was deducted from the statement of comprehensive income.

Chairman : Ming-Kai Tsai　　President : Lih-Shyng Tsai　　Chief Financial Officer : David Ku

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC.

PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS

For the years ended December 31, 2017 and 2016

(Amounts in thousands of New Taiwan Dollars)

Description	2017	2016
Cash flows from operating activities :		
Profit before tax from continuing operations	$ 23,826,192	$ 24,688,700
Adjustments for:		
The profit or loss items which did not affect cash flows:		
Depreciation	1,425,264	1,187,415
Amortization	970,223	1,612,673
Bad debt provision (reversal)	68,763	(182,279)
(Gains) losses on financial assets and liabilities at fair value through profit or loss	(44,190)	20,924
Interest expenses	528,218	324,622
Interest income	(935,816)	(850,451)
Share-based payment expenses	603,096	289,321
Share of profit of subsidiaries, associates, and joint ventures accounted for using the equity method	(22,597,776)	(22,503,615)
Losses on disposal of property, plant and equipment	133	38
Property, plant and equipment transferred to expenses	1,680	-
Gains on disposal of investments	(61,169)	(19,651)
Unrealized gross profit on sales	94,953	246,645
Others	(184,040)	(221,624)
Changes in operating assets and liabilities:		
Financial assets at fair value through profit or loss	492,392	650,506
Trade receivables	676,204	(1,164,635)
Trade receivables from related parties	(260,883)	(230,705)
Other receivables	2,297,165	(2,307,629)
Inventories	6,994,178	(6,634,324)
Prepayments	(79,565)	852,249
Other current assets	(160,883)	(38,820)
Trade payables	(4,588,278)	3,719,167
Trade payables to related parties	(99,631)	125,882
Other payables	415,386	940,114
Other current liabilities	(464,321)	126,072
Long-term payables	-	(56,212)
Net defined benefit liabilities	7,689	12,346
Cash generated from operating activities:		
Interest received	857,953	713,772
Dividend received	18,796,739	13,489,338
Interest paid	(503,317)	(323,403)
Income tax paid	(1,843,144)	(432,040)
Net cash provided by operating activities	26,233,215	14,034,396
Cash flows from investing activities :		
Acquisition of available-for-sale financial assets	-	(393,243)
Proceeds from disposal of available-for-sale financial assets	811,441	470,928
Acquisition of debt instrument investments for which no active market exists	(329,054)	(7,250)
Proceeds from redemption of held-to-maturity financial assets	-	1,125,000
Acquisition of investments accounted for using the equity method	(7,500,000)	(14,650,002)
Proceeds from disposal of investments accounted for using the equity method	39,933	-
Proceeds from capital return of investments accounted for using the equity method	1,500,000	2,280,000
Acquisition of property, plant and equipment	(1,546,783)	(3,050,023)
Proceeds from disposal of property, plant and equipment	-	83,907
Increase in refundable deposits	(12,384)	(48,562)
Acquisition of intangible assets	(723,006)	(219,191)
Proceeds from disposal of intangible assets	-	785
Net cash used in investing activities	(7,759,853)	(14,407,651)
Cash flows from financing activities :		
Increase in short-term borrowings	13,413,686	2,984,050
(Decrease) increase in deposits received	(3,734)	421
Proceeds from exercise of employee stock options	6,444	-
Cash dividends	(14,986,192)	(17,287,421)
Net cash used in financing activities	(1,569,796)	(14,302,950)
Net increase (decrease) in cash and cash equivalents	16,903,566	(14,676,205)
Cash and cash equivalents at the beginning of the year	60,244,970	74,921,175
Cash and cash equivalents at the end of the year	$ 77,148,536	$ 60,244,970

The accompanying notes are an integral part of the parent company only financial statements.

Chairman : Ming-Kai Tsai President : Lih-Shyng Tsai Chief Financial Officer : David Ku

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 23, 2018.

3. Newly Issued or Revised Standards and Interpretations

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

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

(2) Standards or interpretations issued, revised or amended, which are recognized by FSC, but not yet adopted by the Company as at the end of reporting period are listed below:

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

(To be continued)

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

(Continued)

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

A. IFRS 15 "Revenue from Contracts with Customers"

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

Step 1：Identify the contracts with a customer;
Step 2：Identify the performance obligations in the contract;
Step 3：Determine the transaction price;

Step 4：Allocate the transaction price to the performance obligations in the contracts;
Step 5：Recognize revenue when the entity satisfies a performance obligation.

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

B. IFRS 9 “Financial Instruments”

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

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

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

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

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

C. IFRS 15 "Revenue from Contracts with Customers" (Clarification)
The amendments clarify how to identify a performance obligation in a contract, determine whether an entity is a principal or an agent, and determine whether the revenue from granting a license should be recognized at a point in time or over time.

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

IAS 28 "Investments in Associates and Joint Ventures"
The amendments clarify that when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and other qualifying entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with IFRS 9 "Financial Instruments" on an investment-by-investment basis. Besides, if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries on an investment-by-investment basis.

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

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

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

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

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

(B) In accordance with the requirements of IFRS 15, more extensive disclosure would have to be made.

B. IFRS 9 “Financial Instruments”

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

(A) Classification and measurement of financial assets

Available-for-sale financial assets – equity instrument investments

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

As these equity instrument investments are not held-for-trading, the Company elected to designate them as financial assets measured at fair value through other comprehensive income. On the date of initial application, the Company will reclassify available-for-sale financial assets to financial assets measured at fair value through other comprehensive income of NT$408,468 thousand. Other related adjustments are described as follow:

(a) The equity instrument investments currently measured at cost in accordance with IAS 39 had an original cost of NT$3,000 thousand and was fully impaired. However, in accordance with the requirement of IFRS 9, equity instrument investments must be measured at fair value but are not required to be assessed for impairment. The estimated fair value of the equity instrument investments was NT$0 as at the date of initial application. The Company will adjust retained earnings and other equity by NT$3,000 thousand and NT$3,000 thousand, respectively.

(b) The equity instrument investments are currently measured at fair value. As at the date of initial application, except for the reclassification to financial assets measured at fair value through other comprehensive income and other equity accounts, no other difference will incur.

Available-for-sale financial assets – fund investments

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

As at the date of initial application, the Company will reclassify available-for-sale financial assets of NT$3,161,143 thousand to financial assets mandatorily measured at fair value through profit or loss. Besides, changes in fair value of NT$215,591 thousand previously recognized in other equity will be reclassified to retained earnings.

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

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

Impairment of financial assets

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

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

Besides, under IFRS9, impairment assessment is not required for equity instruments. Therefore, as the Company elects to classify certain equity investments as financial assets measured at fair value through other comprehensive income, the Company will reclassify an accumulated impairment loss of NT$534,825 thousand from retained earnings to other component of equity.

(B) Investments accounted for using the equity method

The Company will adjust and increase the investments accounted for using the equity method of NT$9,310,619 thousand, retained earnings of NT$1,805,487 thousand, and other equity of NT$7,505,132 thousand at the date of initial application as a result of the application of IFRS 9.

(C) Others

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

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

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

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

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

A. IFRS 16 “Leases”
The new standard requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions). Lessor accounting still uses the dual classification approach: operating lease and finance lease.

B. IFRIC 23 “Uncertainty Over Income Tax Treatments”
The Interpretation clarifies application of recognition and measurement requirements in IAS 12 “Income Taxes” when there is uncertainty over income tax treatments.

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

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

4. Summary of Significant Accounting Policies

Statement of Compliance

The 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.

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 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.

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.

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.

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:

(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.

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.

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.

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).

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.

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 though 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.

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.

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

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

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

Property, plant and equipment

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

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

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.

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.

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. 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.

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

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

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

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

Income taxes

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

A. Current income tax

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

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

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.

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.

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.

(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, 2017	December 31, 2016
Checking and savings accounts	$ 5,758,287	$ 4,270,964
Time deposits	71,390,249	55,005,636
Cash equivalents - repurchase agreements	-	968,370
Total	$ 77,148,536	$ 60,244,970

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, 2017	December 31, 2016
Current		
Held for trading financial assets		
Forward exchange contracts	$ -	$ 1,850
Financial assets designated upon initial recognition at fair value through profit or loss		
Credit-linked deposits	-	490,857
Total	$ -	$ 492,707

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

	December 31, 2017	December 31, 2016
Held for trading financial liabilities		
Forward exchange contracts	$ -	$ 45,098
Noncurrent		
Financial assets designated upon initial recognition at fair value through profit or loss		
Credit-linked deposits	$ 190,211	$ 190,257

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

(3) Available-for-sale financial assets

	December 31, 2017	December 31, 2016
Current		
Funds	$ 751,871	$ 1,293,307
Bonds	451,215	500,393
Stocks	408,468	381,959
Depositary receipts	-	23,314
Subtotal	1,611,554	2,198,973
Noncurrent		
Funds	2,409,272	2,819,404
Bonds	302,388	757,630
Subtotal	2,711,660	3,577,034
Total	$ 4,323,214	$ 5,776,007

Available-for-sale financial assets were not pledged.

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

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

	December 31, 2017	December 31, 2016
Current		
Time deposits	$ 18,885	$ 18,885
Noncurrent		
Bonds	290,000	-
Time deposits	62,018	22,964
Subtotal	352,018	22,964
Total	$ 370,903	$ 41,849

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

(5) Trade receivables and trade receivables from related parties

	December 31, 2017	December 31, 2016
Trade receivables	$ 7,863,214	$ 9,452,756
Less: allowance for doubtful debts	(133,136)	(64,373)
Less: allowance for sales returns and discounts	(2,668,618)	(3,581,956)
Subtotal	5,061,460	5,806,427
Trade receivables from related parties	600,158	339,275
Less: allowance for doubtful debts	-	-
Subtotal	600,158	339,275
Total	$ 5,661,618	$ 6,145,702

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):

	Individually impaired	Collectively impaired	Total
As of January 1, 2017	$ -	$ 64,373	$ 64,373
Charge for the current period	-	68,763	68,763
As of December 31, 2017	$ -	$ 133,136	$ 133,136

(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

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: 1 to 90 days	Past due but not impaired: More than 91 days	Total
December 31, 2017	$ 5,215,220	$ 446,398	$ -	$ 5,661,618
December 31, 2016	$ 5,679,824	$ 465,878	$ -	$ 6,145,702

The Company entered into several factoring agreements without recourse with financial institutions. According to those agreements, the Company does not take the risk of uncollectible trade receivables, but only the risk of loss due to commercial disputes. The Company did not provide any collateral, and the factoring agreements met the criteria of financial asset derecognition. The Company derecognized related trade receivables after deducting the estimated value of commercial disputes. Receivables from banks due to factoring agreement were NT$1,052,051 thousand, and NT$914,276 thousand as of December 31, 2017 and 2016, respectively.

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

A. As of December 31, 2017:

The Factor (Transferee)	Interest rate	Trade receivables derecognized (US$'000)	Cash withdrawn (US$'000)	Unutilized (US$'000)	Credit line (US$'000)
Taishin International Bank	-	$ 29,494	$ -	$ 29,494	$ 81,500
BNP Paribas	-	5,742	-	5,742	107,000
HSBC	-	11	-	11	350
Total		$ 35,247	$ -	$ 35,247	$188,850

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

B. As of December 31, 2016:

The Factor (Transferee)	Interest rate	Trade receivables derecognized (US$'000)	Cash withdrawn (US$'000)	Unutilized (US$'000)	Credit line (US$'000)
Taishin International Bank	-	$ 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

(6) Inventories

	December 31, 2017	December 31, 2016
Raw materials	$ 122,208	$ 226,872
Work in progress	3,335,484	8,171,328
Finished goods	3,385,195	5,915,126
Net amount	$ 6,842,887	$ 14,313,326

For the years ended December 31, 2017 and 2016, the cost of inventories recognized in expenses amounted to NT$57,747,431 thousand and NT$82,574,626 thousand, including the write-down of inventories of NT$3,868,332 thousand and NT$1,032,705 thousand for the years ended December 31, 2017 and 2016, respectively.

Inventories were not pledged.

(7) Prepayments

	December 31, 2017	December 31, 2016
Prepaid expenses	$ 269,543	$ 192,608
Others	109,004	106,374
Total	$ 378,547	$ 298,982

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

(8) Investments accounted for using the equity method

Investees	December 31, 2017 Carrying amount	December 31, 2017 Percentage of ownership (%)	December 31, 2016 Carrying amount	December 31, 2016 Percentage of ownership (%)
Subsidiaries:				
MediaTek Investment Singapore Pte. Ltd.	$ 97,921,306	100	$ 75,501,040	100
MStar Semiconductor, Inc.	43,503,456	100	46,830,803	100
Hsu-Ta Investment Corp.	34,662,963	100	27,184,670	100
Hsu-Chuang Investment Corp.	83,465	100	293,084	100
HFI Innovation Inc.	353,143	100	369,550	100
MediaTek Singapore Pte. Ltd.	6,891,709	100	17,761,587	100
Airoha (Cayman) Inc.	-	-	42,821	100
Airoha Technology Corp.	153,206	7	-	-
Total	$ 183,569,248		$ 167,983,555	

The Company increased its investment in Hsu-Ta Investment Corp. in NT$14,200,000 thousand and NT$7,500,000 thousand in April 2016 and March 2017, respectively, and Hsu-Ta Investment Corp. returned NT$3,500,000 thousand and NT$1,500,000 thousand in November 2016 and July 2017, respectively for capital reduction, of which NT$1,220,000 thousand was not yet received and recognized as other receivables as of December 31, 2016.

The Company invested NT$50,000 thousand to establish Hsu-Chuang Investment Corp. 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 the amount of NT$398,000 thousand in March 2016 and by the contribution of IPs in the amount of NT$221,624 thousand and NT$186,657 thousand in December 2016 and July 2017, respectively.

The 100% ownership of T-Rich Technology (Cayman) Corp., which was previously owned by the Company, was transferred to Hsu-Si Investment Corp. in June 2017. After that, T-Rich Technology (Cayman) Corp. was renamed Airoha (Cayman) Inc.

The Company spun-off the business unit –Bluetooth related Internet of Things Product Line Business, whose business value amounted to NT$441,523 thousand, to Airoha Technology Corp., and committed to paying NT$10,137 thousand in cash to acquire 7% new shares of the capital increase of Airoha Technology Corp. in October 2017. As of December 31, 2017, NT$10,137 thousand has not been paid and the Company recorded it as other payables

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)

(9) Property, plant and equipment

	Land	Buildings and facilities	Machinery equipment	Computer and telecommunication equipment	Testing equipment	Miscellaneous equipment	Construction in progress and equipment awaiting examination	Total
Cost:								
As of January 1, 2017	$ 1,459,149	$ 9,265,858	$ 11,524	$ 2,729,700	$ 4,277,592	$ 200,975	$ 464,846	$ 18,409,644
Additions-acquired separately	-	168,887	3,613	599,432	549,297	20,936	185,882	1,528,047
Disposals	-	(483)	-	(202,933)	(154,482)	(5,684)	-	(363,582)
Disposals-spin-off	-	-	-	-	(12,079)	-	-	(12,079)
Transfers	-	7,277	-	232	1,833	58,860	(68,009)	193
As of December 31, 2017	$ 1,459,149	$ 9,441,539	$ 15,137	$ 3,126,431	$ 4,662,161	$ 275,087	$ 582,719	$ 19,562,223
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

English Translation of Financial Statements Originally Issued in Chinese

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, 2017	$ -	$ 2,306,316	$ 9,245	$ 1,314,149	$ 2,285,702	$ 163,067	$ -	$ 6,078,479
Depreciation	-	272,554	1,396	595,994	541,616	13,704	-	1,425,264
Disposals	-	(171)	-	(202,891)	(151,774)	(5,684)	-	(360,520)
Disposals-spin-off	-	-	-	-	(6,597)	-	-	(6,597)
As of December 31, 2017	$ -	$ 2,578,699	$ 10,641	$ 1,707,252	$ 2,668,947	$ 171,087	$ -	$ 7,136,626
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
Net carrying amount as of:								
December 31, 2017	$ 1,459,149	$ 6,862,840	$ 4,496	$ 1,419,179	$ 1,993,214	$ 104,000	$ 582,719	$ 12,425,597
December 31, 2016	$ 1,459,149	$ 6,959,542	$ 2,279	$ 1,415,551	$ 1,991,890	$ 37,908	$ 464,846	$ 12,331,165

Property, plant and equipment were not pledged.

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

(10) Intangible assets

	Software	Patents, IPs and others	Goodwill	Total
Cost:				
As of January 1, 2017	$ 643,849	$ 4,150,107	$ 27,712,833	$ 32,506,789
Additions-acquired separately	110,581	1,805,883	-	1,916,464
Disposals	-	(2,749,481)	-	(2,749,481)
Transfers	(1,561)	-	-	(1,561)
As of December 31, 2017	$ 752,869	$ 3,206,509	$ 27,712,833	$ 31,672,211
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	$ 643,849	$ 4,150,107	$ 27,712,833	$ 32,506,789
Amortization and impairment:				
As of January 1, 2017	$ 515,542	$ 3,486,353	$ -	$ 4,001,895
Amortization	97,608	872,615	-	970,223
Disposals	-	(2,749,481)	-	(2,749,481)
As of December 31, 2017	$ 613,150	$ 1,609,487	$ -	$ 2,222,637
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	$ 515,542	$ 3,486,353	$ -	$ 4,001,895
Net carrying amount as of:				
December 31, 2017	$ 139,719	$ 1,597,022	$ 27,712,833	$ 29,449,574
December 31, 2016	$ 128,307	$ 663,754	$ 27,712,833	$ 28,504,894

(11) 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.

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

(12) Short-term borrowings

	December 31, 2017	December 31, 2016
Unsecured bank loans	$ 40,205,256	$ 26,791,570
Interest rates	1.73-2.35%	1.06-1.59%

(13) Other payables

	December 31, 2017	December 31, 2016
Accrued salaries and bonuses	$ 11,354,874	$ 11,301,161
Accrued royalties	978,934	1,516,401
Other payable to related parties	10,137	-
Others	6,568,056	5,553,962
Total	$ 18,912,001	$ 18,371,524

(14) 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, 2017 and 2016 were NT$536,329 thousand and NT$506,193 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.

(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 mandation, based on a passive-aggressive investment strategy for long-term profitability. The Ministry of Labor establishes risk management mechanism based on the assessment of risk factors including market risk, credit risk and liquidity risk, in order to maintain adequate flexibility to achieve targeted return without over-exposure of risk. With regard to utilization of the pension fund, the minimum earnings in the annual distributions on the final financial statement shall not be less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Treasury funds can be used to cover the deficits after the approval of the competent authority. As the Company does not participate in the operation and management of the pension fund, no disclosure on the fair value of the plan assets categorized in different classes could be made in accordance with IAS 19. The Company expects to contribute NT$2,104 thousand to its defined benefit plan during the 12 months beginning after December 31, 2017.

The weighted average duration of the defined benefit obligation was 20 years and 21 years as of December 31, 2017 and 2016, respectively.

Pension costs recognized in profit or loss are as follows:

	For the years ended December 31	
	2017	2016
Current service cost	$ 2,463	$ 2,404
Net interest on the net defined benefit liabilities	12,791	12,247
Total	$ 15,254	$ 14,651

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

	December 31, 2017	December 31, 2016
Defined benefit obligation	$ 558,277	$ 791,464
Plan assets at fair value	(76,315)	(80,874)
Net defined benefit liabilities	$ 481,962	$ 710,590

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

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

	Defined benefit obligation	Plan assets at fair value	Net defined benefit liabilities (assets)
As of January 1, 2017	$ 791,464	$ (80,874)	$ 710,590
Current service cost	2,463	-	2,463
Interest expenses (income)	14,247	(1,456)	12,791
Subtotal	16,710	(1,456)	15,254
Remeasurements of the defined benefit liabilities/assets:			
Actuarial gains and losses arising from changes in demographic assumptions	538	-	538
Actuarial gains and losses arising from changes in financial assumptions	(176,311)	-	(176,311)
Experience adjustments	(61,164)	-	(61,164)
Remeasurements of the defined benefit assets	-	620	620
Subtotal	(236,937)	620	(236,317)
Payment of benefit obligation	(12,960)	12,960	-
Contributions by employer	-	(7,565)	(7,565)
As of December 31, 2017	$ 558,277	$ (76,315)	$ 481,962

	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

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

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

	December 31, 2017	December 31, 2016
Discount rate	1.60%	1.80%
Expected rate of salary increases	2.00%	3.60%

Sensitivity analysis for significant assumption are shown below:

	For the years ended December 31			
	2017		2016	
	Defined benefit obligation increase	Defined benefit obligation decrease	Defined benefit obligation increase	Defined benefit obligation decrease
Discount rate increases by 0.5%	$ -	$ (51,448)	$ -	$ (78,356)
Discount rate decreases by 0.5%	57,659	-	87,838	-
Rate of future salary increases by 0.5%	57,117	-	85,787	-
Rate of future salary decreases by 0.5%	-	(51,496)	-	(77,422)

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.

(15) Equity

A. Share capital

The Company's authorized capital as of December 31, 2017 and 2016 was NT$20,000,000 thousand, divided into 2,000,000,000 shares (including 20,000,000 shares reserved for exercise of employee stock options at each period), each at a par value of NT$10. The Company's issued capital was NT$15,814,140 thousand and NT$15,821,122 thousand, divided into 1,581,413,973 shares and 1,582,112,191 shares as of December 31, 2017 and 2016, respectively. Each share has one voting right and a right to receive dividends.

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

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

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

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

B. Capital surplus

	December 31, 2017	December 31, 2016
Additional paid-in capital	$ 83,765,699	$ 85,867,533
Treasury share transactions	1,529,750	1,455,706
Changes in ownership interests in subsidiaries	1,146,807	176,894
Donated assets	1,261	1,261
From share of changes in net assets of associates	4,326	29,475
Employee stock options	498,474	513,409
Restricted stocks for employees	1,129,630	1,660,064
Others	134,872	111,014
Total	$ 88,210,819	$ 89,815,356

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

C. Treasury shares

As of December 31, 2017 and 2016, 7,794,085 shares of 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, 2017 and 2016, the Company did not hold any other treasury shares.

D. Retained earnings and dividend policy

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

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

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

According to the Company Act, 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.

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

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

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

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

Details of the 2016 and 2015 earnings distribution and dividends per share were resolved by general shareholders' meeting on June 15, 2017 and June 24, 2016, respectively, are as follows:

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

In addition, the general shareholders' meeting on June 15, 2017 resolved to distribute the paid in capital by cash in the amount of NT$2,372,405 thousand or NT$1.5 per share.

(16) 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.

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

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, 2017 is as follows:

Date of grant	Total number of options granted	Total number of options outstanding	Shares available for option holders	Exercise price (NT$) (Note)
2008.03.31	1,134,119	229,086	229,086	$ 355.5
2008.08.28	1,640,285	406,851	406,851	342.1
2009.08.18	1,382,630	487,756	487,756	426.5
2010.08.27	1,605,757	621,001	621,001	402.0
2010.11.04	65,839	8,134	8,134	374.4
2011.08.24	2,109,871	1,038,401	1,038,401	275.5
2012.08.14	1,346,795	832,714	832,714	284.8
2013.08.22	1,436,343	1,057,160	1,057,160	368.0

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

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

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

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

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

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

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

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

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

Restricted stocks plan for employees

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

The fair value of the restricted stocks issued was NT$254.5 per share. The estimated compensation expense amounted to NT$1,492,340 thousand in total based on the vesting conditions (including NT$12,962 thousand recognized in Airoha Technology Corp. due to spin-off transaction) and will be recognized during the vesting period. As of December 31, 2017, the Company had recognized NT$894,525 thousand (including NT$2,108 thousand recognized in Airoha Technology Corp. due to spin-off transaction which recorded under share of profit of subsidiaries, associates and joint ventures accounted for using the equity method) as compensation expense and NT$597,815 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, with no violation on any terms of the Company's employment agreement, employee handbook, or policies and achievement of both personal performance criterion and the Company's operation objectives during the vesting period are eligible to receive the vested shares. The maximum portions of the vesting shares of each year are 15%, 35%, and 50% for the years ended 2017, 2018, and 2019, respectively. The actual portions of the vesting shares shall be determined by achievement of both personal performance and the Company's operation objectives.
C. During the vesting period, employees may not sell, pledge, transfer, give to another person, create any encumbrance on, or otherwise dispose of, restricted employee shares, excluding inheritance.
D. During the vesting period, the rights of attending shareholders' meeting, proposal, speech, resolution and voting right, etc., and other rights of restricted stock plan for employees, including but not limited to, dividends, bonuses, the distribution rights of legal reserve and capital surplus, the right to subscription of new shares, etc. are the same as the common shares issued by the Company.

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

E. The restricted stock for employees issued by the Company may be deposited in a security trust account.

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

	For the years ended December 31	
	2017	2016
Total equity-settled transactions (Note)	$ (14,935)	$ 10,353
Restricted stock for employees	603,096	289,321
Total	$ 588,161	$ 299,674

Note: Recognized as losses on investments.

There have been no cancellations or modifications to any of the plans during the years ended December 31, 2017 and 2016.

(17) Sales

	For the years ended December 31	
	2017	2016
Sale of goods	$ 100,110,489	$ 134,144,526
Other operating revenues	2,809,722	2,569,536
Less: Sales returns and discounts	(10,395,028)	(15,616,340)
Net sales	$ 92,525,183	$ 121,097,722

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

	For the years ended December 31					
	2017			2016		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Pension	$ 14,521	$ 537,062	$ 551,583	$ 13,547	$ 507,297	$ 520,844
Others	$ 354,131	$ 19,177,314	$ 19,531,445	$ 361,557	$ 18,703,708	$ 19,065,265
Depreciation	$ 2,413	$ 1,422,851	$ 1,425,264	$ 4,019	$ 1,183,396	$ 1,187,415
Amortization	$ -	$ 970,223	$ 970,223	$ -	$ 1,612,673	$ 1,612,673

According to the 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, 2017. 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 in a meeting of the Board of Directors held on March 23, 2018 to distribute NT$298,331 thousand and NT$43,799 thousand in cash as employees’ compensation and remuneration to directors, respectively. There were no material differences between the aforementioned approved amounts and the amounts charged against earnings in 2017.

A resolution was approved in a meeting of the Board of Directors held on March 22, 2017 to distribute NT$309,130 thousand and NT$42,661 thousand in cash as employees’ compensation and remuneration to directors, respectively. There were no material differences between the aforementioned approved amounts and the amounts charged against earnings in 2016.

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

(19) Other income

	For the years ended December 31	
	2017	2016
Interest income	$ 935,816	$ 850,451
Rental income	40,648	27,530
Others	203,819	424,150
Total	$ 1,180,283	$ 1,302,131

(20) Other gains and losses

	For the years ended December 31	
	2017	2016
Losses on disposal of property, plant and equipment	$ (133)	$ (38)
Gains (losses) on disposal of investments		
Available-for-sale financial assets	61,169	19,651
Foreign exchange (losses) gains	(226,199)	545,835
Gains (losses) on financial assets at fair value through profit or loss	179,708	(33,307)
Gains (losses) on financial liabilities at fair value through profit or loss	45,098	(13,150)
Others	(892)	-
Total	$ 58,751	$ 518,991

(21) Finance costs

	For the years ended December 31	
	2017	2016
Interest expenses on borrowings	$ 528,218	$ 324,622

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

(22) Components of other comprehensive income

For the year ended December 31, 2017 :

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
Not to be reclassified to profit or loss:					
Remeasurements of the defined benefit plan	$ 236,317	$ -	$ 236,317	$ (40,174)	$ 196,143
Share of other comprehensive income of subsidiaries, associates, and joint ventures accounted for using the equity method	(23,522)	-	(23,522)	-	(23,522)
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	(4,440,659)	-	(4,440,659)	-	(4,440,659)
Unrealized (losses) gains from available-for-sale financial assets	(339,418)	(61,169)	(400,587)	-	(400,587)
Share of other comprehensive income of subsidiaries, associates, and joint ventures accounted for using the equity method	9,937,603	-	9,937,603	-	9,937,603
Total of other comprehensive income	$ 5,370,321	$ (61,169)	$ 5,309,152	$ (40,174)	$ 5,268,978

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

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

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

(23) Income tax

The major components of income tax (income) expense are as follows:

	For the years ended December 31	
	2017	2016
Current income tax	$ 891,916	$ 1,070,171
Deferred tax income	(1,381,430)	(85,930)
Others	(16,898)	3,861
Income tax (income) expense recognized in profit or loss	$ (506,412)	$ 988,102

Income tax recognized in other comprehensive income

	For the years ended December 31	
	2017	2016
Deferred tax expense (income):		
Remeasurements of the defined benefit plan	$ 40,174	$ (14,605)

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

	For the years ended December 31	
	2017	2016
Accounting profit before tax from continuing operations	$ 23,826,192	$ 24,688,700
Tax at the domestic rates applicable to profits in the country concerned	$ 4,050,453	$ 4,197,079
Tax effect of revenues exempt from taxation	(140,802)	(206,519)
Investment tax credits	(289,990)	(340,133)
Tax effect of deferred tax assets/liabilities	(5,026,612)	(3,573,355)
10% surtax on undistributed retained earnings	862,370	634,503
Others	38,169	276,527
Total income tax (income) expense recognized in profit or loss	$ (506,412)	$ 988,102

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

For the year ended December 31, 2017

	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Charged directly to equity	Exchange differences	Ending balance
Temporary differences						
Unrealized allowance for inventory obsolescence	$ 679,156	$ 465,218	$ -	$ -	$ -	$ 1,144,374
Allowance for sales returns and discounts	608,038	(128,886)	-	-	-	479,152
Amortization of difference for tax purpose	112,850	12,512	-	-	-	125,362
Amortization of goodwill difference for tax purpose	(1,498,969)	1,135,786	-	-	-	(363,183)
Others	141,916	(103,200)	(40,174)	-	-	(1,458)
Deferred tax income (expense)		$ 1,381,430	$ (40,174)	$ -	$ -	
Net deferred tax assets	$ 42,991					$ 1,384,247
Reflected in balance sheet as follows:						
Deferred tax assets	$ 1,541,960					$ 1,819,117
Deferred tax liabilities	$ (1,498,969)					$ (434,870)

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		$ 85,930	$ 14,605	$ -	$ -	
Net deferred tax assets	$ (57,544)					$ 42,991
Reflected in balance sheet as follows:						
Deferred tax assets	$ 1,274,935					$ 1,541,960
Deferred tax liabilities	$ (1,332,479)					$ (1,498,969)

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

Integrated income tax information

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

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

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

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 2015. The Company has applied for administrative appeals of the tax returns of 2015, 2014, 2012, 2011, 2010, 2009 and 2008, and the previous subsidiary of Ralink Technology Corp. 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.

(24) 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	
	2017	2016
A. Basic earnings per share		
Profit (in thousand NT$)	$ 24,332,604	$ 23,700,598
Weighted average number of ordinary shares outstanding for basic earnings per share (share)	1,564,139,064	1,563,789,601
Basic earnings per share (NT$)	$ 15.56	$ 15.16

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

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

Note: There were no dilutive employee stock options for the year ended December 31, 2016.

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

(25) Business spin-off information

For the purpose of implementing the group's internal resources integration, deepening and accelerating the market expansion of the Internet of Things to strengthen the overall competitiveness and operational efficiency, on October 1, 2017, the Company spun-off the business unit– Bluetooth related Internet of Things Product Line Business, whose business value amounted to NT$441,523 thousand, to Airoha Technology Corp.

Net book value of the assets and liabilities of the spin-off are as follow:

	Airoha Technology Corp.
Current assets	$ 476,261
Property, plant and equipment	5,482
Current liabilities	(40,220)
Total	$ 441,523

7. Related Party Transactions

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

Name and nature of relationship of the related parties

Name of the related parties	Nature of relationship of the related parties
EcoNet (HK) Limited	Subsidiary
EcoNet Limited	Subsidiary
Gaintech Co. Limited	Subsidiary
MediaTek Singapore Pte. Ltd.	Subsidiary
MediaTek Wireless Finland Oy	Subsidiary
MediaTek USA Inc.	Subsidiary
MTK Wireless Limited (UK)	Subsidiary
Nephos Pte. Ltd.	Subsidiary
Nephos Inc.	Subsidiary
Hsu-Chuang Investment Corp.	Subsidiary
Hsu-Si Investment Corp.	Subsidiary
Hsu-Ta Investment Corp.	Subsidiary
HFI Innovation Inc.	Subsidiary
Lightup International Corp.	Subsidiary
MStar Semiconductor Inc.	Subsidiary
MediaTek China Limited	Subsidiary
MediaTek (Shanghai) Inc.	Subsidiary
Nephos (Hefei) Co. Ltd.	Subsidiary
AutoChips Inc.	Subsidiary (Note 1)
EcoNet (Suzhou) Limited	Subsidiary
E-Vehicle Semiconductor Technology Co., Ltd.	Subsidiary
Velocenet Inc.	Subsidiary
Nephos (Taiwan) Inc.	Subsidiary
Richtek Technology Corp.	Subsidiary
Airoha Technology Corp.	Subsidiary (Note 2)
Airoha Technology Corp.	Associate (Note 2)
King Yuan Electronics Co., Ltd.	Substantive related party
Andes Technology Corp.	Substantive related party
JMicron Technology Corp.	Substantive related party (Note 3)

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

Note 1：AutoChips Inc. was no longer a subsidiary after the Company transferred the shareholding rights and derecognized it on March 13, 2017.

Note 2：Airoha Technology Corp. was no longer an associate after the Company obtained control over it on March 14, 2017.

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

(1) Significant transactions with related parties

A. Sales

	For the years ended December 31	
	2017	2016
Subsidiaries	$ 1,705,402	$ 2,059,592

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.

B. IC testing, experimental services, and manufacturing technology services

	For the years ended December 31	
	2017	2016
Other related parties	$ 1,224,209	$ 2,094,607

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	
	2017	2016
Subsidiaries		
MediaTek USA Inc.	$ -	$ 2,020,879
Others	77,749	90,683
Subtotal	77,749	2,111,562
Other related parties	28,307	26,656
Total	$ 106,056	$ 2,138,218

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

D. Rental expenditure

	For the years ended December 31	
	2017	2016
Subsidiaries		
MStar Semiconductor, Inc.	$ 41,446	$ 41,446

E. Rental income

	For the years ended December 31	
	2017	2016
Subsidiaries		
Airoha Technology Corp.	$ 10,143	$ -
Nephos (Taiwan) Inc.	8,723	3,761
Velocenet Inc.	7,817	5,259
Others	414	324
Subtotal	27,097	9,344
Associates		
Airoha Technology Corp.	2,831	7,036
Other related parties		
JMicron Technology Corp.	-	3,649
Others	578	535
Subtotal	578	4,184
Total	$ 30,506	$ 20,564

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

F. Other income due to technology service

	For the years ended December 31	
	2017	2016
Subsidiaries		
Nephos (Hefei) Co. Ltd.	$ 130,423	$ 282,512
EcoNet (Suzhou) Limited	24,466	24,100
Others	1,650	-
Total	$ 156,539	$ 306,612

(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, 2017		As of December 31, 2016	
	Endorsement limit	Actual amount	Endorsement limit	Actual amount
Subsidiaries				
Gaintech Co. Limited	$ 24,000,000	$ 13,419,800	$ 24,000,000	$ 13,844,786
MediaTek China Limited	9,000,000	3,701,152	9,000,000	1,258,881
Others	32,668	32,668	33,221	33,221
Total	$ 33,032,668	$ 17,153,620	$ 33,033,221	$ 15,136,888

H. Financing

The Company made loans to the Company's subsidiary in the amount of NT$3,000,000 thousand in February 2017, and received interests of NT$7,833 thousand. The loans were settled in March 2017.

I. Disposal of property, plant and equipment

	For the years ended December 31			
	2017		2016	
	Carrying amount	Proceeds	Carrying amount	Proceeds
Subsidiaries	$ -	$ -	$ 83,780	$ 83,764

J. Disposal of intangible assets

	For the years ended December 31			
	2017		2016	
	Carrying amount	Proceeds	Carrying amount	Proceeds
Subsidiaries	$ -	$ -	$ 785	$ 785

K. Trade receivables from related parties

	December 31, 2017	December 31, 2016
Subsidiaries	$ 600,158	$ 339,275

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

L. Other receivables from related parties

	December 31, 2017	December 31, 2016
Subsidiaries		
Hsu-Ta Investment Corp.	$ -	$ 1,220,000
Nephos (Hefei) Co. Ltd.	392,975	282,512
Others	33,720	151,574
Subtotal	426,695	1,654,086
Associates	-	3,003
Total	$ 426,695	$ 1,657,089

Other receivables from related parties were composed mainly of rent receivables, technology service receivables and return of capital reduction.

M. Trade payables to related parties

	December 31, 2017	December 31, 2016
Subsidiaries	$ 107,714	$ -
Other related parties	261,349	468,694
Total	$ 369,063	$ 468,694

N. Other payables to related parties

	December 31, 2017	December 31, 2016
Subsidiaries	$ 10,137	$ -

O. Key management personnel compensation

	For the years ended December 31	
	2017	2016
Short-term employee benefits (Note)	$ 701,869	$ 588,899
Share-base payment	224,110	126,091
Post-employment benefits	1,530	1,311
Total	$ 927,509	$ 716,301

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.

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

8. Assets Pledged as Collateral

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

Assets pledged as collateral	Carrying amount December 31, 2017	Carrying amount December 31, 2016	Purpose of pledge
Debt instrument investments for which no active market exists-current	$ 9,180	$ 9,180	Customs clearance deposits
Debt instrument investments for which no active market exists-current	9,705	9,705	Lease execution deposits
Debt instrument investments for which no active market exists-noncurrent	23,018	22,964	Land lease guarantee
Debt instrument investments for which no active market exists-noncurrent	39,000	-	Court pledged
Total	$ 80,903	$ 41,849	

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, 2017	December 31, 2016
Not later than one year	$ 46,535	$ 38,032
Later than one year but not later than five years	186,141	152,129
Later than five years	216,574	215,992
Total	$ 449,250	$ 406,153

Operating lease expenses are as follows:

	For the years ended December 31 2017	For the years ended December 31 2016
Minimum lease payments	$ 126,758	$ 155,646

(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.

   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 court dismissed the claims with prejudice against the Company and MediaTek USA Inc. pursuant to the parties' joint motion on November 29, 2017.

B. Mariner IC Inc. ("Mariner") filed a complaint in the United States District Court for the Eastern District of Texas against 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 court dismissed the claims with prejudice against the Company and MediaTek USA Inc. pursuant to the parties' joint stipulation on May 17, 2017.

C. Semcon IP Inc. ("Semcon") filed a complaint in the United States District Court for the Eastern District of Texas against 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.

D. 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 Nos. 6,677,952, 6,950,350, 7,518,616, 8,643,659. The Commission issued an Initial Determination to terminate the investigation as to MediaTek USA Inc. on June 19, 2017. On August 28, 2017, the Commission issued an Initial Determination to terminate the investigation.

Also on December 16, 2016, ZiiLabs filed a complaint in the United States District Court for the Eastern District of Texas against MTK and subsidiary MediaTek USA Inc., alleging infringement of the above referenced patents. The court dismissed the claims with prejudice against the Company and MediaTek USA Inc. pursuant to the parties' joint motion on August 10, 2017.

E. 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 Nos. 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.

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

Also on March 7, 2017, Broadcom filed a complaint in the United States District Court for the Central District of California against the Company and subsidiary MediaTek USA Inc., alleging infringement of United States Patent Nos. 8,284,844, 7,590,059, 7,310,104, and 7,342,967; and against subsidiary MStar Semiconductor, Inc. alleging infringement of United States Patent Nos. 8,284,844, 7,590,059, 8,068,171, and 7,310,104. The court dismissed the claims with prejudice against the Company, MediaTek USA Inc., and MStar Semiconductor, Inc. pursuant to the parties' joint stipulations on November 8, 2017.

G. Blue Sky Networks, LLC ("Blue Sky") filed a complaint in the United States District Court for the Western District of Texas against the Company and subsidiary MediaTek USA Inc. on July 5, 2017, alleging infringement of United States Patent Nos. 6,088,398, 6,484,027, 6,865,372, 7,693,542, 7,885,684, 8,019,381, 8,265,691 and 8,346,169. The court dismissed the claims with prejudice against the Company and MediaTek USA Inc. on October 18, 2017.

H. Wireless Switch IP, LLC ("Wireless Switch") filed a complaint in the United States District Court for the Northern District of California against the Company and subsidiary MediaTek USA Inc. on July 25, 2017, alleging infringement of United States Patent Nos. 7,356,351 and 7,647,070. The court dismissed the claims against the Company and MediaTek USA Inc. on October 5, 2017.

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

On January 18, 2018, the Legislative Yuan passed amendments to the Income Tax Act. The amendments raised the corporate income tax rate for companies from 17% to 20%. After the change of the tax rate, the deferred tax assets and deferred tax liabilities will be increased by NT$318,909 thousand and NT$76,742 thousand, respectively.

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

12. Others

(1) Financial instruments

A. Categories of financial instruments

Financial assets

	December 31, 2017	December 31, 2016
Financial assets at fair value through profit or loss:		
Held for trading financial assets	$ -	$ 1,850
Financial assets designated upon initial recognition at fair value through profit or loss	190,211	681,114
Subtotal	190,211	682,964
Available-for-sale financial assets	4,323,214	5,776,007
Loans and receivables:		
Cash and cash equivalents (excluding cash on hand and petty cash)	77,148,536	60,244,970
Debt instrument investments for which no active market exists	370,903	41,849
Trade receivables (including related parties)	5,661,618	6,145,702
Other receivables	3,428,577	5,346,492
Subtotal	86,609,634	71,779,013
Total	$ 91,123,059	$ 78,237,984

Financial liabilities

	December 31, 2017	December 31, 2016
Financial liabilities at fair value through profit or loss:		
Held for trading financial liabilities	$ -	$ 45,098
Financial liabilities at amortized cost:		
Short-term borrowings	40,205,256	26,791,570
Trade payables (including related parties)	5,260,420	9,948,329
Other payables	18,912,001	18,371,524
Long-term payables	1,044,449	-
Subtotal	65,422,126	55,111,423
Total	$ 65,422,126	$ 55,156,521

B. Fair values of financial instruments

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

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

(a) The carrying amount of cash and cash equivalents, trade receivables (including related parties), other receivables, short-term borrowings, trade payables (including related parties) and other payables approximate their fair value due to their short maturities.

(b) For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities and bonds) at the reporting date.

(c) The fair value of derivative financial instrument is based on market quotations. For unquoted derivatives that are not options, the fair value is determined based on discounted cash flow analysis using interest rate yield curve for the contract period. Fair value of option-based derivative financial instruments is obtained using the option pricing model.

(d) The fair value of other financial assets and liabilities is determined using discounted cash flow analysis; the interest rate and discount rate are selected with reference to those of similar financial instruments.

b. Fair value of financial instruments measured at amortized cost

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

c. Fair value measurement hierarchy

(a) Fair value measurement hierarchy

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

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

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

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

Level 3: Unobservable inputs for the assets or liabilities.

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

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

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

As of December 31, 2017

	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at fair value through profit or loss				
Linked deposits	$ -	$ -	$ 190,211	$ 190,211
Available-for-sale financial assets				
Stocks	408,468	-	-	408,468
Funds	3,161,143	-	-	3,161,143
Bonds	753,603	-	-	753,603
Total	$ 4,323,214	$ -	$ 190,211	$ 4,513,425

As of December 31, 2016

	Level 1	Level 2	Level 3	Total
Financial assets:				
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				
Depositary 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	$ 5,776,007	$ 1,850	$ 681,114	$ 6,458,971

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

	Level 1	Level 2	Level 3	Total
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Derivative financial instruments	$ -	$ 45,098	$ -	$ 45,098

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

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

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

	Financial assets at fair value through profit or loss
	Linked deposits
As of January 1, 2017	$ 681,114
Amount recognized in profit or loss	1,489
Settlements	(492,392)
As of December 31, 2017	$ 190,211

	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

Total gains (losses) related to linked deposits on hand recognized for the years ended December 31, 2017 and 2016 amounted to NT$1,489 thousand and NT$(47,558) thousand, respectively.

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, 2017

None

As of December 31, 2016

None

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:

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

There were no outstanding forward exchange contracts which were included in financial instruments as of December 31, 2017.

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

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

(2) Financial risk management objectives and policies

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

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

A. Market risk

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

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

a. Foreign currency risk

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

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

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

When NTD appreciates or depreciates against USD by 0.1%, the profit for the years ended December 31, 2017 and 2016 decreases/increases by NT$1,733 thousand and NT$3,075 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.

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 the profit for the years ended December 31, 2017 and 2016 to increase/decrease by NT$0 thousand and NT$5 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. The Company manages the equity price risk through diversification and placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Company's senior management on a regular basis. The Company's Board of Directors reviews and approves certain equity investments according to level of authority.

A change of 1% in the price of the listed equity securities classified under available-for-sale could cause the other comprehensive income for the years ended December 31, 2017 and 2016 to increase/decrease by NT$35,696 thousand and NT$45,180 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, 2017 and 2016, receivables from top ten customers represented 44.34% and 52.64% of the total trade receivables of the Company, respectively. The credit concentration risk of other accounts receivables was insignificant.

(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
As of December 31, 2017			
Borrowings	$ 40,272,471	$ -	$ 40,272,471
Trade payables (including related parties)	5,260,420	-	5,260,420
Other payables	18,872,529	-	18,872,529
Long-term payables	-	1,044,449	1,044,449
Total	$ 64,405,420	$ 1,044,449	$ 65,449,869
As of December 31, 2016			
Borrowings	$ 26,816,363	$ -	$ 26,816,363
Trade payables (including related parties)	9,948,329	-	9,948,329
Other payables	18,356,954	-	18,356,954
Total	$ 55,121,646	$ -	$ 55,121,646

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

Derivative financial instruments

As of December 31, 2017
None

	Less than 1 year	1 to 5 years	Total
As of December 31, 2016			
Net settlement			
Forward exchange contracts	$ (47,710)	$ -	$ (47,710)

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:

	December 31, 2017		
	Foreign Currency (thousand)	Exchange rate	NT$ (thousand)
Financial assets			
Monetary item:			
USD	$ 1,606,046	29.848	$ 47,937,251
Financial liabilities			
Monetary item:			
USD	$ 1,547,994	29.848	$ 46,204,539

	December 31, 2016		
	Foreign Currency (thousand)	Exchange rate	NT$ (thousand)
Financial assets			
Monetary item:			
USD	$ 1,543,257	32.279	$ 49,814,785
Financial liabilities			
Monetary item:			
USD	$ 1,189,344	32.279	$ 38,390,857

The Company's currencies are various. Accordingly, the Company is not able to disclose the information of exchange gains and losses of monetary financial assets and liabilities by each significant assets and liabilities denominated in foreign currencies. The foreign exchange (loss) gain was NT$(226,199) thousand and NT$545,835 thousand for the years ended December 31, 2017 and 2016, respectively.

(4) Capital management

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

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