# Winbond Electronics Corporation and Subsidiaries

## Consolidated Financial Statements for the Three Months Ended March 31, 2017 and 2016 and Independent Auditors' Review Report

# Deloitte.

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**INDEPENDENT AUDITORS' REVIEW REPORT**

The Board of Directors and Shareholders
Winbond Electronics Corporation

We have reviewed the accompanying consolidated balance sheets of Winbond Electronics Corporation (the "Company") and its subsidiaries (collectively referred as the "Group") as of March 31, 2017 and 2016, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the three months ended March 31, 2017 and 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these consolidated financial statements based on our reviews.

We conducted our reviews in accordance with Statement of Auditing Standards No. 36 "Review of Financial Statements" issued by the Auditing Standards Committee of the Accounting Research and Development Foundation of the Republic of China. A review consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to in the first paragraph for them to be in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Deloitte & Touche

Deloitte & Touche
Taipei, Taiwan
Republic of China

April 28, 2017

<u>*Notice to Readers*</u>

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

*For the convenience of readers, the independent auditors' review report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' review report and consolidated financial statements shall prevail.*

## WINBOND ELECTRONICS CORPORATION AND SUBSIDIARIES

**CONSOLIDATED BALANCE SHEETS**
**(In Thousands of New Taiwan Dollars)**

| ASSETS | March 31, 2017 (Reviewed) Amount | % | December 31, 2016 (Audited) Amount | % | March 31, 2016 (Reviewed) Amount | % |
|---|---|---|---|---|---|---|
| CURRENT ASSETS | | | | | | |
| Cash and cash equivalents (Note 6) | $ 6,123,622 | 9 | $ 7,683,817 | 11 | $ 7,108,327 | 11 |
| Current financial assets at fair value through profit or loss (Note 7) | 48,240 | - | 5,559 | - | 86,637 | - |
| Current available-for-sale financial assets (Note 8) | 5,221,873 | 7 | 4,486,893 | 7 | 3,215,789 | 5 |
| Notes and accounts receivable, net (Note 9) | 5,303,576 | 8 | 5,756,815 | 8 | 5,279,572 | 8 |
| Accounts receivable due from related parties, net (Note 26) | 36,044 | - | 49,531 | - | 45,297 | - |
| Other receivables (Notes 6 and 10) | 546,776 | 1 | 518,048 | 1 | 775,458 | 1 |
| Inventories (Note 11) | 7,808,930 | 11 | 7,536,161 | 11 | 8,600,087 | 14 |
| Other current assets | 1,255,970 | 2 | 1,222,919 | 2 | 1,262,738 | 2 |
| Total current assets | 26,345,031 | 38 | 27,259,743 | 40 | 26,373,905 | 41 |
| NON-CURRENT ASSETS | | | | | | |
| Non-current available-for-sale financial assets (Note 8) | 181,679 | - | 146,913 | - | - | - |
| Non-current financial assets measured at cost (Note 12) | 611,699 | 1 | 611,699 | 1 | 727,786 | 1 |
| Investments accounted for using equity method (Note 13) | 3,320,544 | 5 | 2,654,477 | 4 | 1,947,507 | 3 |
| Property, plant and equipment (Note 14) | 35,622,114 | 52 | 34,372,537 | 51 | 31,279,509 | 49 |
| Investment properties (Note 15) | 57,734 | - | 61,673 | - | 70,255 | - |
| Intangible assets (Note 16) | 261,337 | 1 | 285,304 | - | 266,051 | 1 |
| Deferred income tax assets (Note 21) | 2,220,446 | 3 | 2,353,422 | 4 | 2,700,681 | 4 |
| Other non-current assets (Note 6) | 240,643 | - | 243,727 | - | 243,863 | 1 |
| Total non-current assets | 42,516,196 | 62 | 40,729,752 | 60 | 37,235,652 | 59 |
| TOTAL | $ 68,861,227 | 100 | $ 67,989,495 | 100 | $ 63,609,557 | 100 |

| LIABILITIES AND EQUITY | March 31, 2017 (Reviewed) Amount | % | December 31, 2016 (Audited) Amount | % | March 31, 2016 (Reviewed) Amount | % |
|---|---|---|---|---|---|---|
| CURRENT LIABILITIES | | | | | | |
| Current financial liabilities at fair value through profit or loss (Note 7) | $ - | - | $ 47,288 | - | $ - | - |
| Notes and accounts payable | 4,248,322 | 6 | 4,209,720 | 6 | 3,787,707 | 6 |
| Accounts payable to related parties (Note 26) | 476,618 | 1 | 472,489 | 1 | 622,924 | 1 |
| Payables on machinery and equipment | 2,925,942 | 4 | 3,826,462 | 6 | 807,339 | 1 |
| Other payables | 2,562,098 | 4 | 2,786,505 | 4 | 2,283,750 | 4 |
| Long-term borrowings, current portion (Note 17) | 3,090,180 | 4 | 3,090,180 | 4 | 4,352,267 | 7 |
| Other current liabilities | 141,174 | - | 173,091 | - | 147,932 | - |
| Total current liabilities | 13,444,334 | 19 | 14,605,735 | 21 | 12,001,919 | 19 |
| NON-CURRENT LIABILITIES | | | | | | |
| Long-term borrowings (Note 17) | 6,641,778 | 10 | 6,638,273 | 10 | 8,758,085 | 14 |
| Net defined benefit liabilities, non-current | 1,052,876 | 1 | 1,062,706 | 1 | 1,022,028 | 1 |
| Other non-current liabilities | 455,339 | 1 | 461,982 | 1 | 396,403 | 1 |
| Total non-current liabilities | 8,149,993 | 12 | 8,162,961 | 12 | 10,176,516 | 16 |
| Total liabilities | 21,594,327 | 31 | 22,768,696 | 33 | 22,178,435 | 35 |
| EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT (Note 19) | | | | | | |
| Share capital | 35,800,002 | 52 | 35,800,002 | 53 | 35,800,002 | 56 |
| Capital surplus | 2,471,044 | 3 | 2,471,044 | 3 | 2,470,292 | 4 |
| Retained earnings | | | | | | |
| Legal reserve | 208,606 | 1 | 208,606 | - | - | - |
| Special reserve | 1,395,063 | 2 | 1,395,063 | 2 | - | - |
| Unappropriated earnings | 3,639,817 | 5 | 2,952,901 | 5 | 2,862,370 | 4 |
| Exchange differences on translation of foreign financial statements | (104,265) | - | 23,433 | - | 68,857 | - |
| Unrealized gains (losses) on available-for-sale financial assets | 2,628,544 | 4 | 1,176,299 | 2 | (889,513) | (1) |
| Treasury shares | (106,387) | - | (106,387) | - | (106,387) | - |
| Total equity attributable to owners of the parent | 45,932,424 | 67 | 43,920,961 | 65 | 40,205,621 | 63 |
| NON-CONTROLLING INTERESTS | 1,334,476 | 2 | 1,299,838 | 2 | 1,225,501 | 2 |
| Total equity | 47,266,900 | 69 | 45,220,799 | 67 | 41,431,122 | 65 |
| TOTAL | $ 68,861,227 | 100 | $ 67,989,495 | 100 | $ 63,609,557 | 100 |

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

(With Deloitte & Touche review report dated April 28, 2017)

# WINBOND ELECTRONICS CORPORATION AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**
**(Reviewed, Not Audited)**

| | Three Months Ended March 31 | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| | Amount | % | Amount | % |
| OPERATING REVENUE | $ 10,424,963 | 100 | $ 10,086,944 | 100 |
| OPERATING COST (Note 11) | 7,436,194 | 71 | 7,048,644 | 70 |
| GROSS PROFIT | 2,988,769 | 29 | 3,038,300 | 30 |
| OPERATING EXPENSES | | | | |
| Selling expenses | 284,117 | 3 | 310,780 | 3 |
| General and administrative expenses | 325,089 | 3 | 318,299 | 3 |
| Research and development expenses | 1,455,057 | 14 | 1,403,096 | 14 |
| Total operating expenses | 2,064,263 | 20 | 2,032,175 | 20 |
| INCOME FROM OPERATIONS | 924,506 | 9 | 1,006,125 | 10 |
| NON-OPERATING INCOME AND EXPENSES | | | | |
| Interest income | 7,997 | - | 38,745 | - |
| Dividend income | 921 | - | - | - |
| Other income | 8,767 | - | 7,921 | - |
| Gains on disposal of property, plant and equipment | 292 | - | 342 | - |
| Gains on financial instruments at fair value through profit or loss | 185,255 | 2 | 68,911 | 1 |
| Interest expenses | (16,629) | - | (52,764) | - |
| Other expenses | (6,193) | - | (5,809) | - |
| Foreign exchange losses | (203,608) | (2) | (57,279) | (1) |
| Share of losses of associates accounted for using equity method | (17,842) | - | (7,121) | - |
| Total non-operating income and expenses | (41,040) | - | (7,054) | - |
| PROFIT BEFORE INCOME TAX | 883,466 | 9 | 999,071 | 10 |
| INCOME TAX EXPENSE (Note 21) | 160,003 | 2 | 191,534 | 2 |
| NET PROFIT | 723,463 | 7 | 807,537 | 8 |

(Continued)

# WINBOND ELECTRONICS CORPORATION AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**
**(Reviewed, Not Audited)**

| | Three Months Ended March 31 | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| | **Amount** | **%** | **Amount** | **%** |
| OTHER COMPREHENSIVE INCOME | | | | |
| Components of other comprehensive income that will be reclassified to profit or loss: | | | | |
| Exchange differences on translation of foreign financial statements | $ (143,164) | (1) | $ (22,208) | - |
| Unrealized gains on available-for-sale financial assets | 781,893 | 7 | 317,524 | 3 |
| Share of other comprehensive income of associates accounted for using equity method | 683,909 | 7 | 229,730 | 2 |
| Other comprehensive income | 1,322,638 | 13 | 525,046 | 5 |
| TOTAL COMPREHENSIVE INCOME | $ 2,046,101 | 20 | $ 1,332,583 | 13 |
| NET PROFIT ATTRIBUTABLE TO: | | | | |
| Owners of the parent | $ 686,916 | 7 | $ 776,310 | 8 |
| Non-controlling interests | 36,547 | - | 31,227 | - |
| | $ 723,463 | 7 | $ 807,537 | 8 |
| TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO: | | | | |
| Owners of the parent | $ 2,011,463 | 19 | $ 1,303,650 | 13 |
| Non-controlling interests | 34,638 | 1 | 28,933 | - |
| | $ 2,046,101 | 20 | $ 1,332,583 | 13 |
| EARNINGS PER SHARE (Note 22) | | | | |
| Basic | $ 0.19 | | $ 0.22 | |
| Diluted | $ 0.19 | | $ 0.22 | |

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

(With Deloitte & Touche review report dated April 28, 2017) (Concluded)

## WINBOND ELECTRONICS CORPORATION AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
**(In Thousands of New Taiwan Dollars)**
**(Reviewed, Not Audited)**

| | Equity Attributable to Owners of the Parent | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Retained Earnings | | | Other Equity | | | | | |
| | Share Capital | Capital Surplus | Legal Reserve | Special Reserve | Unappropriated Earnings | Exchange Differences on Translation of Foreign Financial Statements | Unrealized Gains (Losses) on Available-for-sale Financial Assets | Treasury Shares | Total | Non-controlling Interests | Total Equity |
| BALANCE, JANUARY 1, 2016 | $ 35,800,002 | $ 2,470,292 | $ - | $ - | $ 2,086,060 | $ 88,771 | $ (1,436,767) | $ (106,387) | $ 38,901,971 | $ 1,196,568 | $ 40,098,539 |
| Net profit for the three months ended March 31, 2016 | - | - | - | - | 776,310 | - | - | - | 776,310 | 31,227 | 807,537 |
| Other comprehensive income (loss) for the three months ended March 31, 2016 | - | - | - | - | - | (19,914) | 547,254 | - | 527,340 | (2,294) | 525,046 |
| Total comprehensive income (loss) for the three months ended March 31, 2016 | - | - | - | - | 776,310 | (19,914) | 547,254 | - | 1,303,650 | 28,933 | 1,332,583 |
| BALANCE, MARCH 31, 2016 | $ 35,800,002 | $ 2,470,292 | $ - | $ - | $ 2,862,370 | $ 68,857 | $ (889,513) | $ (106,387) | $ 40,205,621 | $ 1,225,501 | $ 41,431,122 |
| BALANCE, JANUARY 1, 2017 | $ 35,800,002 | $ 2,471,044 | $ 208,606 | $ 1,395,063 | $ 2,952,901 | $ 23,433 | $ 1,176,299 | $ (106,387) | $ 43,920,961 | $ 1,299,838 | $ 45,220,799 |
| Net profit for the three months ended March 31, 2017 | - | - | - | - | 686,916 | - | - | - | 686,916 | 36,547 | 723,463 |
| Other comprehensive income (loss) for the three months ended March 31, 2017 | - | - | - | - | - | (127,698) | 1,452,245 | - | 1,324,547 | (1,909) | 1,322,638 |
| Total comprehensive income (loss) for the three months ended March 31, 2017 | - | - | - | - | 686,916 | (127,698) | 1,452,245 | - | 2,011,463 | 34,638 | 2,046,101 |
| BALANCE, MARCH 31, 2017 | $ 35,800,002 | $ 2,471,044 | $ 208,606 | $ 1,395,063 | $ 3,639,817 | $ (104,265) | $ 2,628,544 | $ (106,387) | $ 45,932,424 | $ 1,334,476 | $ 47,266,900 |

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

(With Deloitte & Touche review report dated April 28, 2017)

# WINBOND ELECTRONICS CORPORATION AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(In Thousands of New Taiwan Dollars)**
**(Reviewed, Not Audited)**

| | Three Months Ended March 31 | |
|---|---|---|
| | 2017 | 2016 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Profit before income tax | $ 883,466 | $ 999,071 |
| Adjustments for: | | |
| Depreciation expense | 1,364,024 | 1,437,269 |
| Amortization expense | 27,266 | 22,491 |
| (Reversal of) provision for allowance for doubtful accounts | (5,740) | 3,285 |
| Provision for (reversal of) decline in market value and obsolescence and abandonment of inventories | 12,772 | (39,641) |
| Net gain on financial assets and liabilities at fair value through profit or loss | (89,969) | (109,064) |
| Interest expense | 16,629 | 52,764 |
| Interest income | (7,997) | (38,745) |
| Dividend income | (921) | - |
| Share of loss of associates accounted for using equity method | 17,842 | 7,121 |
| Gain on disposal of property, plant and equipment | (292) | (342) |
| Changes in operating assets and liabilities | | |
| Decrease (increase) in notes and accounts receivable | 460,741 | (98,670) |
| Decrease in accounts receivable due from related parties | 13,487 | 35,618 |
| (Increase) decrease in other receivables | (29,272) | 6,485 |
| Increase in inventories | (285,541) | (24,611) |
| Increase in other current assets | (33,033) | (143,022) |
| Decrease (increase) in other non-current assets | 3,084 | (67) |
| Increase (decrease) in notes and accounts payable | 38,602 | (58,777) |
| Increase (decrease) in accounts payable to related parties | 4,129 | (84,140) |
| Decrease in other payables | (264,717) | (200,015) |
| (Decrease) increase in other current liabilities | (31,917) | 9,278 |
| (Decrease) increase in other non-current liabilities | (4,358) | 19,650 |
| Cash inflow generated from operations | 2,088,285 | 1,795,938 |
| Interest received | 6,560 | 9,326 |
| Dividends received | 921 | - |
| Interest paid | (45,483) | (64,253) |
| Income taxs paid | (5,601) | (18,511) |
| Net cash flows from operating activities | 2,044,682 | 1,722,500 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisitions of property, plant and equipment | (3,496,998) | (795,915) |
| Proceeds from disposal of property, plant and equipment | 293 | 501 |
| Acquisitions of available-for-sale financial assets | - | (398,477) |
| Proceeds from repayment of held-to-maturity financial assets | - | 101,100 |
| Decrease in financial lease receivables | - | 124,353 |
| Acquisition of intangible assets | (2,224) | (26,262) |
| Net cash used in investing activities | (3,498,929) | (994,700) |

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# WINBOND ELECTRONICS CORPORATION AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(In Thousands of New Taiwan Dollars)**
**(Reviewed, Not Audited)**

| | Three Months Ended March 31 | |
|---|---|---|
| | **2017** | **2016** |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Decrease in non-controlling interests | $ (15,465) | $ (2,294) |
| Net cash used in financing activities | (15,465) | (2,294) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | (90,483) | (13,794) |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (1,560,195) | 711,712 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 7,683,817 | 6,396,615 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | $ 6,123,622 | $ 7,108,327 |

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

(With Deloitte & Touche review report dated April 28, 2017) (Concluded)

# WINBOND ELECTRONICS CORPORATION AND SUBSIDIARIES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**THREE MONTHS ENDED MARCH 31, 2017 AND 2016**
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**
**(Reviewed, Not Audited)**

## 1. GENERAL INFORMATION

Winbond Electronics Corporation (the "Company") was incorporated in the Republic of China ("ROC") on September 29, 1987 and is engaged in the design, development, manufacture and marketing of Very Large Scale Integration ("VLSI") integrated circuits ("ICs") used in a variety of microelectronic applications.

The Company's shares have been listed on the Taiwan Stock Exchange since October 18, 1995. Walsin Lihwa is a major shareholder of the Company and held approximately 23% ownership interest in the Company as of March 31, 2017 and 2016.

## 2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were reported to the Board of Directors and issued on April 28, 2017.

## 3. APPLICATION OF NEW AND REVISED STANDARDS, AMENDMENTS AND INTERPRETATIONS

a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) endorsed and issued into effect by the Financial Supervisory Commission (FSC)

   Except for the following, whenever applied, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC would not have any material impact on the Group's accounting policies:

   1) Annual Improvements to IFRSs 2011-2013 Cycle

      The scope in IFRS 13 of the portfolio exception for measuring the fair value of a company's financial assets and financial liabilities on a net basis was amended to clarify that it includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even those contracts which do not meet the definitions of financial assets or financial liabilities within IAS 32. When the amended IFRS 13 becomes effective in 2017, the Group will choose to measure the fair value of those contracts retrospectively on a net basis.

   2) Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers

      The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed and issued into effect by the FSC. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include an emphasis on certain recognition and measurement considerations and additional requirements for disclosures of related party transactions and goodwill.

The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president, or is the spouse or second immediate family of the chairman of the board of directors or president of the Group are deemed to have a substantive related party relationship, unless it can be demonstrated that no control or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationship with whom the Group has significant transactions. If the transactions or balance with a specific related party is 10% or more of the Group's respective total transactions or balance, such transactions should be separately disclosed by the name of each related party.

The amendments also require additional disclosure if there is a significant difference between the actual operation after business combination and the expected benefit on acquisition date.

Except for the above impacts, as of the date the consolidated financial statements were approved for issue, the Group continues assessing other possible impacts that application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC will have on the Group's financial position and financial performance, and will disclose these other impacts when the assessment is completed.

b. The IFRSs issued by the International Accounting Standards Board (IASB) but not yet endorsed and issued into effect by the FSC

The Group has not applied the following IFRSs issued by the IASB but not yet endorsed by the FSC.

As of the date the consolidated financial statements were approved for issue, the FSC has not announced the effective dates of other new IFRSs, however, IFRS 9 and IFRS 15 will be effective starting from January 1, 2018.

| New IFRSs | Effective Date Issued by IASB (Note 1) |
|---|---|
| Annual Improvements to IFRSs 2014-2016 Cycle | Note 2 |
| Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions" | January 1, 2018 |
| Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" | January 1, 2018 |
| IFRS 9 "Financial Instruments" | January 1, 2018 |
| Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures" | January 1, 2018 |
| Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" | To be determined by IASB |
| IFRS 15 "Revenue from Contracts with Customers" | January 1, 2018 |
| Amendment to IFRS 15 "Clarification to IFRS 15" | January 1, 2018 |
| IFRS 16 "Leases" | January 1, 2019 |
| Amendment to IAS 7 "Disclosure Initiative" | January 1, 2017 |
| Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses" | January 1, 2017 |
| Amendments to IAS 40 "Transfers of Investment Property" | January 1, 2018 |
| IFRIC 22 "Foreign Currency Transactions and Advance Consideration" | January 1, 2018 |

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The amendment to IFRS 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendment to IAS 28 is retrospectively applied for annual periods beginning on or after January 1, 2018.

1) IFRS 9 "Financial Instruments"

With regard to financial assets, all recognized financial assets that are within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at amortized cost or fair value. Specifically, financial assets that are held within a business model whose objective is to collect contractual cash flows and have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other financial assets are measured at their fair values at the end of reporting period. However, the Group may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

Financial instruments that have been derecognized prior to the effective date of IFRS 9 cannot be reversed to apply IFRS 9 when it becomes effective. Under IFRS 9, the requirements for classification, measurement and impairment of financial assets are applied retrospectively with the difference between the previous carrying amount and the carrying amount at the date of initial application recognized in the current period, and restatement of prior periods is not required.

2) IFRS 15 "Revenue from Contracts with Customers" and related amendment

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations.

When applying IFRS 15, the Group shall recognize revenue by applying the following steps:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when the entity satisfies a performance obligation.

When IFRS 15 and related amendment are effective, the Group may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application.

3) IFRS 16 "Leases"

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 and a number of related interpretations.

Under IFRS 16, if the Group is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for low-value and short-term leases. The Group may elect to apply the accounting method similar to the accounting for operating lease under IAS 17 to the low-value and short-term leases. On the consolidated statements of comprehensive income, the Group should present the depreciation expense charged on the right-of-use asset separately from interest expense accrued on the lease liability; interest is computed by using effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of the lease liability are classified within financing activities; cash payments for interest portion are classified within operating activities.

The application of IFRS 16 is not expected to have a material impact on the accounting of the Group as lessor.

When IFRS 16 becomes effective, the Group may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the initial application of this Standard recognized at the date of initial application.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group's financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

## 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 and IAS 34 "Interim Financial Reporting" as endorsed and issued into effect by the FSC. Disclosure information included in the consolidated financial statements do not present all the disclosures required for a complete set of annual financial statements.

### Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

### Basis of Consolidation

a. Principles for preparing consolidated financial statements

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company. All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation.

Attribution of total comprehensive income to non-controlling interests

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

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Company.

b. Subsidiaries included in consolidated financial statements

| Investor | Investee | Main Business | % of Ownership March 31, 2017 | December 31, 2016 | March 31, 2016 |
|---|---|---|---|---|---|
| The Company | Winbond Int'l Corporation ("WIC") | Investment holding | 100 | 100 | 100 |
| WIC | Winbond Electronics Corp. America ("WECA") | Design, sales and after-sales service of semiconductor | 100 | 100 | 100 |
| The Company | Landmark Group Holdings Ltd. ("Landmark") | Investment holding | 100 | 100 | 100 |
| Landmark | Winbond Electronics Corp. Japan ("WECJ") | Research, development, sales and after-sales service of semiconductor | 100 | 100 | 100 |
| Landmark | Peaceful River Corp. ("PRC") | Investment holding | 100 | 100 | 100 |
| The Company | Winbond Electronics (HK) Limited ("WEHK") | Sale of semiconductor | 100 | 100 | 100 |
| The Company | Pine Capital Investment Limited ("PCI") | Investment holding | 100 | 100 | 100 |
| PCI | Winbond Electronics (Suzhou) Limited ("WECN") | Design, development and marketing of VLSI integrated ICs | 100 | 100 | 100 |
| The Company | Mobile Magic Design Corporation ("MMDC") | Design, development and marketing of Pseudo SRAM | 100 | 100 | 100 |
| The Company | Winbond Technology LTD ("WTL") | Design and service of semiconductor | 100 | 100 | 100 |
| The Company | Newfound Asian Corp. ("NAC") | Investment holding | 100 | 100 | 100 |
| NAC | Baystar Holdings Ltd. ("BHL") | Investment holding | 100 | 100 | 100 |
| The Company | Nuvoton Technology Corporation ("NTC") | Research, development, design, manufacture and marketing of Logic IC, 6 inch wafer product, test, and OEM | 61 | 61 | 61 |
| The Company | Techdesign Corporation ("TDC") (Note) | Electronic commerce and product marketing | 100 | 100 | - |
| NTC | Marketplace Management Ltd. ("MML") | Investment holding | 100 | 100 | 100 |
| MML | Goldbond LLC ("GLLC") | Investment holding | 100 | 100 | 100 |
| GLLC | Nuvoton Electronics Technology (Shanghai) Limited ("NTSH") | Provide project of sale in China and repair, test and consult of software | 100 | 100 | 100 |
| GLLC | Winbond Electronics (Nanjing) Ltd. ("WENJ") | Computer software service (except I.C. design) | 100 | 100 | 100 |
| NTC | Pigeon Creek Holding Co., Ltd. ("PCH") | Investment holding | 100 | 100 | 100 |
| PCH | Nuvoton Technology Corp. America ("NTCA") | Design, sales and after-sales service of semiconductor | 100 | 100 | 100 |
| NTC | Nuvoton Investment Holding Ltd. ("NIH") | Investment holding | 100 | 100 | 100 |
| NIH | Nuvoton Technology Israel Ltd. ("NTIL") | Design and service of semiconductor | 100 | 100 | 100 |
| NTC | Nuvoton Electronics Technology (H.K.) Limited ("NTHK") | Sales of semiconductor | 100 | 100 | 100 |
| NTHK | Nuvoton Electronics Technology (Shenzhen) Limited ("NTSZ") | Computer software service (except I.C. design), wholesale business for computer, supplement and software | 100 | 100 | 100 |
| NTC | Song Yong Investment Corporation ("SYI") | Investment holding | 100 | 100 | 100 |
| NTC | Nuvoton Technology India Private Limited ("NTIPL") | Design, sales and service of semiconductor | 100 | 100 | 100 |
| NTC | Techdesign Corporation ("TDC") (Note) | Electronic commerce and product marketing | - | - | 100 |

Note: On May 18, 2016, the Company purchased 100% of the shares of TDC from NTC.

**Classification of Current and Non-current Assets and Liabilities**

Current assets include cash and cash equivalents and those assets held primarily for trading purposes or to be realized, sold or consumed within twelve months after the reporting period, unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period. Current liabilities are obligations incurred for trading purposes or to be settled within twelve months after the reporting period and liabilities that the Group does not have an unconditional right to defer settlement for at least twelve months after the reporting period. Except as otherwise mentioned, assets and liabilities that are not classified as current are classified as non-current.

**Foreign Currencies**

The consolidated financial statements are presented in the Company's functional currency, New Taiwan dollars.

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's foreign currencies are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement are recognized in profit or loss in the period they arise.

Exchange differences arising on the retranslation of non-monetary items measured at fair value are included in profit or loss for the period at the rates prevailing at the end of reporting period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, and exchange differences arising are recognized in other comprehensive income (attributed to the owners of the Company and non-controlling interests as appropriate).

**Cash Equivalents**

Cash equivalents include time deposits and investments, highly liquid, readily convertible to a known amount of cash and subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

**Financial Instruments**

a. Financial assets

   All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis, except derivative financial assets which are recognized and derecognized on settlement date basis.

   The categories of financial assets held by the Group are financial assets at fair value through profit or loss, available-for-sale financial assets, and loans and receivables.

   1) Financial assets at fair value through profit or loss

      Financial assets are classified as at fair value through profit or loss when the financial assets are either held for trading or designated as at fair value through profit or loss. Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

   2) Available-for-sale financial assets

      Listed shares held by the Group that are traded in an active market are classified as available-for-sale financial assets and are stated at fair value at the end of each reporting period. Changes in the fair value of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed of or is determined to be impaired.

      Dividends on available-for-sale equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment loss at the end of each reporting period and are presented in a separate line item as financial assets carried at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between carrying amount and fair value is recognized in profit or loss or other comprehensive income on financial assets. Any impairment losses are recognized in profit and loss.

3) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables including cash and cash equivalent, notes and accounts receivable, account receivable due from related parties, other receivables and refundable deposits are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivable when the effect of discounting is immaterial.

b. Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables. The amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of available-for-sale debt securities, impairment loss are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When accounts receivable are considered uncollectable, the amount is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

c. Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

d. Financial liabilities

Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or it is designated as at fair value through profit or loss. Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

Financial liabilities are measured at amortized cost using the effective interest method, except financial liabilities at fair value through profit or loss.

e. Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

f. Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risks, including foreign exchange forward contracts and cross currency swaps.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. When the fair value of derivative financial instruments is positive, the derivative is recognized as a financial asset; when the fair value of derivative financial instruments is negative, the derivative is recognized as a financial liability.

g. Information about fair value of financial instruments

The Group determined the fair value of financial assets and liabilities as follow:

1) The fair values of financial assets and liabilities which have standard terms and conditions and traded in active market are determined by reference to quoted market price. If there is no quoted market price in active market, valuation techniques are applied.

2) The fair value of foreign-currency derivative financial instrument could be determined by reference to the price and discount rate of currency swap quoted by financial institutions. Foreign exchange forward contracts use individual maturity rate to calculate the fair value of each contract.

3) The fair values of other financial assets and financial liabilities are determined by discounted cash flow analysis in accordance with generally accepted pricing models.

**Inventories**

Inventories consist of raw materials, supplies, finished goods and work-in-process and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at weighted-average cost on the balance sheet date.

**Investments in Associates**

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee without having control or joint control over those policies.

The Group uses equity method to recognize investments in associates. Under the equity method, an investment in an associate is initially recognized at cost and adjusted thereafter to recognize the Group’s share of the profit or loss and other comprehensive income of the associate. The Group also recognizes the changes in the Group’s share of equity of associates.

Any excess of the cost of acquisition over the Group’s share of the net fair value of the identifiable assets and liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Group’s share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When the Group subscribes for additional new shares of the associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group’s proportionate interest in the associate. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus. If the Group’s ownership interest is reduced due to the additional subscription of the new shares of associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for by the equity method is insufficient, the shortage is debited to retained earnings.

When the Group’s share of losses of an associate equals or exceeds its interest in that associate (which includes any carrying amount of the investment accounted for by the equity method and long-term interests that, in substance, form part of the Group’s net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Group has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date on which its investment ceases to be an associate. Any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. The Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities.

When the Group transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

**Property, Plant and Equipment**

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and subsequent accumulated impairment loss.

Properties, plant and equipment in the course of construction are carried at cost, less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such assets are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for intended use.

Depreciation is recognized using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

The Group's property, plant and equipment were depreciated straight-line basis over the estimated useful life of the asset:

| | |
|---|---|
| Buildings | 9-21 years |
| Machinery and equipment | 4-8 years |
| Other equipment | 6 years |

**Investment Properties**

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are measured initially at cost. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss, and depreciated over 20 years useful lives after considered residual values, using the straight-line method. Any gain or loss arising on derecognition of the property is calculated as the difference between the net disposal proceeds and the carrying amount of the asset and is included in profit or loss in the period in which the property is derecognized.

**Intangible Assets**

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period with the effect of any changes in estimate accounted for on a prospective basis.

**Impairment of Tangible and Intangible Assets**

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

When an impairment loss subsequently is reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

**Provisions**

Provisions are recognized when the Group has a present obligation as a result of a past event and at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. For potential product risk, the Group accrues reserve for products guarantee based on commitment to specific customers.

**Revenue Recognition**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Sales returns are recognized at the time of sale provided the seller can reliably estimate future returns; a liability is recognized for returns based on previous experience and other relevant factors. Sales of goods are recognized when the goods are delivered and title is passed to the buyer.

**Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating lease.

Under finance lease, the Group as lessor recognizes amounts due from lessees as receivables at the amount of the Group's net investment in the lease. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Under operating lease, the Group as lessor recognizes rental income from operating lease on a straight-line basis over the term of the relevant lease. Contingent rents receivable arising under operating leases are recognized as income in the period in which they are earned. As lessee, operating lease payments are recognized as an expense on a straight-line basis over the lease term. Contingent rents payable arising under operating leases are recognized as an expense in the period in which they are incurred.

**Borrowing Costs**

Borrowing costs directly attributable to the acquisition of qualifying assets are added to the cost of those assets, until such time that the assets are substantially ready for their intended use or sale.

Other than state above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

**Employee Benefits**

a. Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service rendered by employees.

b. Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost and net interest on the net defined benefit liability are recognized as employee benefits expense in the period they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability represents the actual deficit in the Group's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

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

c. Other long-term employee benefits

Other long-term employee benefits are accounted for in the same way as the accounting required for defined benefit plan except that remeasurement is recognized in profit or loss.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax. Interim period income taxes are assessed on an annual basis and calculated by applying to an interim period's pre-tax income at the tax rate that would be applicable to expected total annual earnings.

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The Group's critical accounting judgments and key sources of estimation uncertainty is below:

a. Valuation of inventory

Net realizable value of inventory is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The estimation of net realizable value is based on current market conditions and the historical experience from selling products of a similar nature. Changes in market conditions may have a material impact on the estimation of net realizable value.

b. Impairment of accounts receivable

Objective evidence of impairment used in evaluating impairment loss includes estimated future cash flows. The amount of impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. If the future cash flows are lower than expected, significant impairment loss may be recognized.

## 6. CASH AND CASH EQUIVALENTS

| | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|---|---|---|---|
| Cash and deposits in banks | $ 5,855,066 | $ 7,129,365 | $ 6,608,977 |
| Repurchase agreements collateralized by bonds | 268,556 | 554,452 | 499,350 |
| | $ 6,123,622 | $ 7,683,817 | $ 7,108,327 |

a. The Group has time deposits pledged to secure land and building leases, customs tariff obligations, export bill and sales deposits which are reclassified as "other non-current assets". Time deposits pledged as security at the end of the reporting period were as follows:

| | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|---|---|---|---|
| Time deposits | $ 140,580 | $ 140,621 | $ 138,547 |

b. The Group has partial time deposits which were not held for the purpose of meeting short-term cash commitments and are reclassified to "other receivables". These partial time deposits at the end of the reporting period were as follows:

| | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|---|---|---|---|
| Time deposits | $ 200,916 | $ 213,553 | $ 199,008 |

## 7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|---|---|---|---|
| Financial assets at FVTPA - current | | | |
| Derivative financial assets (not under hedge accounting) | | | |
| Forward exchange contracts | $ 48,240 | $ - | $ 86,637 |
| Foreign exchange swap contracts | - | 5,559 | - |
| | $ 48,240 | $ 5,559 | $ 86,637 |
| Financial liabilities at FVTPL - current | | | |
| Derivative financial liabilities (not under hedge accounting) | | | |
| Forward exchange contracts | $ - | $ 47,288 | $ - |

At the date of balance sheet, the outstanding forward exchange contracts not under hedge accounting were as follows:

| | Currencies | Maturity Date | Contract Amount (In Thousands) |
|---|---|---|---|
| March 31, 2017 | | | |
| Sell forward exchange contracts | USD to NTD | 2017.04.07-2017.05.19 | USD97,000/NTD2,987,065 |
| December 31, 2016 | | | |
| Sell forward exchange contracts | USD to NTD | 2017.01.06-2017.02.17 | USD101,000/NTD3,209,844 |
| Sell forward exchange contracts | RMB to NTD | 2017.01.13-2017.02.17 | RMB30,000/NTD137,743 |
| Foreign exchange swap contracts | EUR to NTD | 2017.01.26-2017.02.24 | EUR5,665/NTD197,931 |
| March 31, 2016 | | | |
| Sell forward exchange contracts | USD to NTD | 2016.04.01-2016.05.27 | USD117,000/NTD3,854,171 |
| Buy forward exchange contracts | NTD to USD | 2016.04.08-2016.04.22 | NTD648,530/USD20,000 |

The Group entered into derivative financial instruments contracts to manage exposures to exchange rate fluctuations of foreign currency denominated assets and liabilities. These derivative financial instruments contracts did not meet the criteria of hedge effectiveness, therefore, they were not accounted for by hedge accounting.

## 8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|---|---|---|---|
| Listed stocks and exchange traded funds | | | |
| Walsin Lihwa Corporation | $ 2,780,000 | $ 2,370,000 | $ 1,708,000 |
| Hannstar Display Corporation | 1,035,961 | 975,168 | 528,526 |
| Walton Advanced Engineering Inc. | 765,959 | 585,733 | 452,066 |
| Walsin Technology Corporation | 436,751 | 345,009 | 274,330 |
| Nyquest Technology Co., Ltd. | 181,679 | 146,913 | - |
| Vanguard Short-Term Corporate Bond ETF | 149,835 | 158,700 | 112,046 |
| CIFM Money Market Fund Class B | 23,922 | 24,873 | 26,333 |
| Wal-Mart Stores, Inc. | 15,199 | 15,604 | - |
| Telit Communications PLC | 14,246 | 11,806 | - |
| CTBC Financial Holding Co., Ltd. | - | - | 57,171 |
| Cathay Financial Holding Co., Ltd. | - | - | 38,569 |
| Yuanta/P-Shares Taiwan Top 50 ETF | - | - | 18,748 |
| Available-for-sale financial assets | $ 5,403,552 | $ 4,633,806 | $ 3,215,789 |
| Current | $ 5,221,873 | $ 4,486,893 | $ 3,215,789 |
| Non-current | 181,679 | 146,913 | - |
| | $ 5,403,552 | $ 4,633,806 | $ 3,215,789 |

Nyquest Technology Co., Ltd.'s shares have been listed on the Taipei Exchange since May 9, 2016; hence NTC reclassified its investment from "non-current financial assets measured at cost" to "non-current available-for-sale financial assets".

## 9. NOTES AND ACCOUNTS RECEIVABLE

| | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|---|---|---|---|
| Notes receivable | $ - | $ 72 | $ 432 |
| Accounts receivable | 5,428,378 | 5,889,047 | 5,410,949 |
| Less: Allowance for doubtful accounts | (124,802) | (132,304) | (131,809) |
| | $ 5,303,576 | $ 5,756,815 | $ 5,279,572 |

The average credit period for sales of goods was 30-60 days. Allowance for doubtful accounts is based on estimated irrecoverable amounts determined by reference to aging of receivables, past default experience of the counterparties and an analysis of their financial position.

The aging of accounts receivable were as follows:

| | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|---|---|---|---|
| Not overdue | $ 5,062,340 | $ 5,455,371 | $ 4,713,654 |
| Overdue under 30 days | 356,636 | 420,632 | 685,789 |
| Overdue 31-60 days | 3,496 | 7,273 | 4,030 |
| Overdue 61 days and longer | 5,906 | 5,771 | 7,476 |
| | $ 5,428,378 | $ 5,889,047 | $ 5,410,949 |

Movements in the allowance for doubtful accounts recognized on accounts receivable were as follows:

| | Three Months Ended March 31 | |
|---|---|---|
| | 2017 | 2016 |
| Balance at January 1 | $ 132,304 | $ 128,424 |
| Add: (Reversal of) provision recognized on accounts receivable | (5,740) | 3,285 |
| Effect of exchange rate changes | (1,762) | 100 |
| Balance at March 31 | $ 124,802 | $ 131,809 |

The Group’s receivables were aged on a collective basis and not on individual account basis.

## 10. FINANCE LEASE RECEIVABLES

| | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|---|---|---|---|
| Gross investment in leases | | | |
| Not later than one year | $ - | $ - | $ 428,887 |
| Less: Unearned finance income | - | - | (87,065) |
| Present value of minimum lease payments | $ - | $ - | $ 341,822 |
| Finance lease receivables | | | |
| Not later than one year (recorded as “other receivables”) | $ - | $ - | $ 341,822 |

The Company entered into finance lease agreements with a non-related party for certain machinery. All leases were denominated in New Taiwan dollars. The term of finance leases agreements was 3-5 years. The interest rate inherent in the leases was 1.7% per annum which was fixed on the contract date for the entire lease term. The machinery was partially pledged to secure long-term borrowings.

As of December 31, 2016, the financial lease agreements expired, and the pledged machinery has been cancelled off its pledged status.

## 11. INVENTORIES

| | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|---|---|---|---|
| Finished goods | $ 1,523,720 | $ 1,574,361 | $ 1,812,496 |
| Work-in-process | 5,765,812 | 5,426,989 | 6,287,498 |
| Raw materials and supplies | 511,433 | 530,332 | 489,729 |
| Inventories in transit | 7,965 | 4,479 | 10,364 |
| | $ 7,808,930 | $ 7,536,161 | $ 8,600,087 |

a. Loss on decline in market value and obsolescence and abandonment of inventories was $12,772 thousand and gain on reversal of decline in market value and obsolescence and abandonment of inventories was $39,641 thousand, which were recognized as cost of sales for the three months ended March 31, 2017 and 2016, respectively. Gain on recovery of decline in market value amounted to $44,081 thousand for the three months ended March 31, 2016 was due to net realizable value increased.

b. Unallocated fixed manufacturing costs recognized as cost of sales in the three months ended March 31, 2017 and 2016 amounted to $82,172 thousand and $181,431 thousand, respectively.

## 12. FINANCIAL ASSETS MEASURED AT COST

| | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|---|---|---|---|
| LTIP Trust Fund | $ 466,144 | $ 466,144 | $ 466,144 |
| United Industrial Gases Co., Ltd. | 81,081 | 81,081 | 81,081 |
| Yu-Ji Venture Capital Co., Ltd. | 25,000 | 25,000 | 30,000 |
| Harbinger III Venture Capital Corp. | 10,976 | 10,976 | 23,488 |
| Smart Catch International Co., Ltd. | 10,000 | 10,000 | 40,000 |
| Nyquest Technology Co., Ltd. (Note 8) | - | - | 68,071 |
| Others | 18,498 | 18,498 | 19,002 |
| Non-current financial assets measured at cost | $ 611,699 | $ 611,699 | $ 727,786 |

Management believed that the above unlisted equity investments held by the Group have fair values that cannot be reliably measured because the range of reasonable fair value estimates was so significant; therefore they were measured at cost less impairment at the end of the reporting period.

## 13. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

### Investments in Associates

| | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|---|---|---|---|
| Associates that are not individually material | | | |
| Chin Xin Investment Co., Ltd. | $ 3,320,544 | $ 2,654,477 | $ 1,947,507 |

As of March 31, 2017, the Company had 182,841 thousand shares of Chin Xin Investment Co., Ltd. with a 38% ownership interest.

The investments accounted for using equity method and the shares of profit or loss and other comprehensive income of those investments for the three months ended March 31, 2017 and 2016 were based on the associates' financial statements reviewed by independent auditors.

## 14. PROPERTY, PLANT AND EQUIPMENT

| | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|---|---|---|---|
| Land | $ 1,618,931 | $ 1,623,646 | $ 1,623,487 |
| Buildings | 10,750,466 | 7,228,631 | 7,639,008 |
| Machinery and equipment | 21,838,795 | 18,581,254 | 20,711,772 |
| Other equipment | 1,114,000 | 501,933 | 392,148 |
| Construction in progress and prepayments for purchase of equipment | 299,922 | 6,437,073 | 913,094 |
| | $ 35,622,114 | $ 34,372,537 | $ 31,279,509 |

| | Land | Buildings | Machinery and Equipment | Other Equipment | Construction in Progress and Prepayments for Purchase of Equipment | Total |
|---|---|---|---|---|---|---|
| Cost | | | | | | |
| Balance at January 1, 2017 | $ 1,623,646 | $ 21,615,031 | $ 93,310,319 | $ 3,451,660 | $ 6,437,073 | $ 126,437,729 |
| Additions | - | 312,451 | 307,672 | 566,382 | 1,439,056 | 2,625,561 |
| Disposals | - | (76) | (123,815) | (934) | - | (124,825) |
| Reclassified | - | 3,457,633 | 4,036,047 | 82,527 | (7,576,207) | - |
| Transfer to other current assets | - | - | (19) | - | - | (19) |
| Effect of exchange rate changes | (4,715) | (16,913) | (3,695) | (6,832) | - | (32,155) |
| Balance at March 31, 2017 | $ 1,618,931 | $ 25,368,126 | $ 97,526,509 | $ 4,092,803 | $ 299,922 | $ 128,906,291 |
| Accumulated depreciation and impairment | | | | | | |
| Balance at January 1, 2017 | $ - | $ 14,386,400 | $ 74,729,065 | $ 2,949,727 | $ - | $ 92,065,192 |
| Depreciation expenses | - | 241,935 | 1,085,296 | 35,627 | - | 1,362,858 |
| Disposals | - | (76) | (123,814) | (934) | - | (124,824) |
| Effect of exchange rate changes | - | (10,599) | (2,833) | (5,617) | - | (19,049) |
| Balance at March 31, 2017 | $ - | $ 14,617,660 | $ 75,687,714 | $ 2,978,803 | $ - | $ 93,284,177 |
| Cost | | | | | | |
| Balance at January 1, 2016 | $ 1,625,058 | $ 21,494,688 | $ 91,709,441 | $ 3,260,504 | $ 801,152 | $ 118,890,843 |
| Additions | - | 17,429 | 222,871 | 25,989 | 537,557 | 803,846 |
| Disposals | - | - | (76,129) | (4,624) | - | (80,753) |
| Reclassified | - | - | 425,626 | (11) | (425,615) | - |
| Effect of exchange rate changes | (1,571) | (5,586) | 243 | 503 | - | (6,411) |
| Balance at March 31, 2016 | $ 1,623,487 | $ 21,506,531 | $ 92,282,052 | $ 3,282,361 | $ 913,094 | $ 119,607,525 |
| Accumulated depreciation and impairment | | | | | | |
| Balance at January 1, 2016 | $ - | $ 13,585,584 | $ 70,528,175 | $ 2,862,054 | $ - | $ 86,975,813 |
| Depreciation expenses | - | 285,331 | 1,118,016 | 32,622 | - | 1,435,969 |
| Disposals | - | - | (75,970) | (4,624) | - | (80,594) |
| Effect of exchange rate changes | - | (3,392) | 59 | 161 | - | (3,172) |
| Balance at March 31, 2016 | $ - | $ 13,867,523 | $ 71,570,280 | $ 2,890,213 | $ - | $ 88,328,016 |

a. As of March 31, 2017, December 31, 2016 and March 31, 2016, the carrying amounts of $14,331,642 thousand, $20,272,406 thousand and $18,061,783 thousand of land, buildings and 12-inch Fab manufacturing facilities were pledged to secure long-term borrowings. The Group was not permitted to sell or pledge any of these pledged assets.

b. Information about capitalized interest

| | Three Months Ended March 31 | |
|---|---|---|
| | 2017 | 2016 |
| Capitalized interest amounts | $ 29,083 | $ 11,869 |
| Capitalized interest rates | 1.79% | 1.94% |

c. In response to future market demand and the development of advanced manufacturing processes, the Company invested in capital expenditure for the construction of the buildings and acquisition of related equipments. As of December 31 2017, unfinished buildings and machinery were in the amount of $5,996,694 thousand, which was recorded as construction in progress and prepayments for purchase of equipment. As of March 31, 2017, the construction was completed and tested. Construction in progress and prepayments for purchase of equipment were recorded as “buildings” and “machinery and equipment”, respectively.

## 15. INVESTMENT PROPERTIES

| | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|---|---|---|---|
| Investment properties, net | $ 57,734 | $ 61,673 | $ 70,255 |

The investment properties is in Shen-Zhen, China. As of December 31, 2016 and 2015, the fair value of such investment properties were both approximately $200,000 thousand, which was referred by the neighborhood transactions. The Company’s management team evaluated the fair value of investment properties and determined that the fair value of the investment properties had not changed significantly, compared to the fair value of the investment properties during the three months ended March 31, 2017 and 2016.

| | Investment Properties |
|---|---|
| Cost | |
| Balance at January 1, 2017 | $ 105,650 |
| Effect of exchange rate changes | (4,804) |
| Balance at March 31, 2017 | $ 100,846 |
| Accumulated depreciation and impairment | |
| Balance at January 1, 2017 | $ 43,977 |
| Depreciation expenses | 1,166 |
| Effect of exchange rate changes | (2,031) |
| Balance at March 31, 2017 | $ 43,112 |

(Continued)

| | Investment Properties |
|---|---|
| Cost | |
| Balance at January 1, 2016 | $ 114,300 |
| Effect of exchange rate changes | (527) |
| Balance at March 31, 2016 | $ 113,773 |
| Accumulated depreciation and impairment | |
| Balance at January 1, 2016 | $ 42,434 |
| Depreciation expenses | 1,300 |
| Effect of exchange rate changes | (216) |
| Balance at March 31, 2016 | $ 43,518 |

(Concluded)

## 16. INTANGIBLE ASSETS

| | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|---|---|---|---|
| Deferred technical assets, net | $ 259,983 | $ 283,732 | $ 264,688 |
| Other intangible assets, net | 1,354 | 1,572 | 1,363 |
| | $ 261,337 | $ 285,304 | $ 266,051 |

| | Deferred Technical Assets | Other Intangible Assets | Total |
|---|---|---|---|
| Cost | | | |
| Balance at January 1, 2017 | $ 18,789,610 | $ 22,325 | $ 18,811,935 |
| Effect of exchange rate changes | (4,321) | (469) | (4,790) |
| Balance at March 31, 2017 | $ 18,785,289 | $ 21,856 | $ 18,807,145 |
| Accumulated amortization and impairment | | | |
| Balance at January 1, 2017 | $ 18,505,878 | $ 20,753 | $ 18,526,631 |
| Amortization expenses | 23,605 | 156 | 23,761 |
| Effect of exchange rate changes | (4,177) | (407) | (4,584) |
| Balance at March 31, 2017 | $ 18,525,306 | $ 20,502 | $ 18,545,808 |

(Continued)

| | Deferred Technical Assets | Other Intangible Assets | Total |
|---|---|---|---|
| Cost | | | |
| Balance at January 1, 2016 | $ 18,689,626 | $ 21,713 | $ 18,711,339 |
| Additions | 13,927 | - | 13,927 |
| Effect of exchange rate changes | 469 | 871 | 1,340 |
| Balance at March 31, 2016 | $ 18,704,022 | $ 22,584 | $ 18,726,606 |
| Accumulated amortization and impairment | | | |
| Balance at January 1, 2016 | $ 18,420,206 | $ 20,207 | $ 18,440,413 |
| Amortization expenses | 19,316 | 148 | 19,464 |
| Effect of exchange rate changes | (188) | 866 | 678 |
| Balance at March 31, 2016 | $ 18,439,334 | $ 21,221 | $ 18,460,555 |

The amounts of deferred technical assets were the technical transfer fee in connection with certain technical transfer agreements. The above technical assets pertained to different products or process technology. The assets were depreciated on a straight-line basis from the commencement of production, and over the estimated useful life of the assets: Deferred technical assets - economic benefits or terms of the contracts and other intangible assets - 3-5 years.

## 17. BORROWINGS

### Long-term Borrowings

| | Period | Interest Rate | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|---|---|---|---|---|---|
| CTBC Bank Co., Ltd. syndicated loan (IV) | 2014.11.27-2019.11.27 | 1.87%-2.23% | $ 8,166,660 | $ 8,166,660 | $ 9,000,000 |
| Bank of Taiwan secured medium-term loan | 2014.12.29-2021.12.29 | 1.47%-1.70% | 617,600 | 617,600 | 617,600 |
| Bank of Taiwan syndicated loan (IV) | 2016.12.29-2021.12.29 | 1.79% | 1,000,000 | 1,000,000 | - |
| Bank of Taiwan syndicated loan (III) | 2011.12.23-2016.12.23 | - | - | - | 3,518,927 |
| | | | 9,784,260 | 9,784,260 | 13,136,527 |
| Less: Current portion | | | (3,090,180) | (3,090,180) | (4,352,267) |
| Less: Syndication agreement management fee | | | (52,302) | (55,807) | (26,175) |
| | | | $ 6,641,778 | $ 6,638,273 | $ 8,758,085 |

a. CTBC Bank Co., Ltd. Syndicated Loan (IV)

1) On July 7, 2014, the Company entered into a syndicated loan, with a group of financial institutions to procure equipment for 12-inch Fab and fund the borrowing payments, credit line was divided into part A and B, which amounted to $6.5 billion and $2.5 billion, respectively; the total line of credit $9 billion.

2) Part A will be repaid every six months from November 27, 2017 until maturity, part B will be repaid every six months from November 27, 2016 until maturity.

3) Please refer to Note 14 for collateral on bank borrowings.

b. The collateral on the Bank of Taiwan secured medium-term loan are the land and building of the Company in Zhubei, please referred to Note 14. The principal will be repaid every six months from June 29, 2017 until maturity.

c. Bank of Taiwan Syndicated Loan (IV)

1) On August 15, 2016, the Company entered into a syndicated loan, with a group of financial institutions, to procure equipment for 12-inch Fab and fund the borrowing payments. The credit line was divided into part A and B, which amounted to $10 billion and $2 billion, respectively; and the total line of credit amounted to $12 billion.

2) Part A will be repaid every six months from December 29, 2019 until maturity, and part B will be repaid every six months from December 29, 2018 until maturity.

3) Please refer to Note 14 for collateral on bank borrowings.

d. Bank of Taiwan Syndicated Loan (III)

1) On September 19, 2011, the Company entered into a syndicated loan, with a group of 17 financial institutions, to procure equipment for 12-inch Fab. The original credit line amount of $7 billion was deducted by $0.25 billion because of prepayment, so the final credit line amounted to $6.75 billion.

2) The Company changed the terms and repayment schedule of the agreement on December 18, 2013. The loan utilized before December 22, 2013 will be repaid every six months from June 23, 2014, and the loan utilized after December 22, 2013 will be repaid every six months at 30%, 30% and 40% from December 23, 2015.

3) Please refer to Note 14 for collateral on bank borrowings.

4) The loan was fully repaid on December 23, 2016.

e. The Company is required to maintain certain financial covenants, including current ratio, debt ratio and tangible net equity, on June 30 and December 31 during the tenors of the loans. Additionally, the principal and interest coverage should be also maintained on June 30 and December 31 during the tenors of the loans except for the Bank of Taiwan secured medium - term loan. The computations of financial ratios mentioned above are done based on the audited consolidated financial statements.

## 18. RETIREMENT BENEFIT PLANS

The employee benefit expense in respect of the Group's defined benefit retirement plans was calculated using the actuarially determined pension cost discount rate as of December 31, 2016 and 2015, and recognized $22,821 thousand and $22,555 thousand for the three months ended March 31, 2017 and 2016, respectively.

## 19. EQUITY

a. Share capital

| | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|---|---|---|---|
| Number of shares authorized (in thousands) | 6,700,000 | 6,700,000 | 6,700,000 |
| Share authorized | $ 67,000,000 | $ 67,000,000 | $ 67,000,000 |
| Number of shares issued and fully paid (in thousands) | 3,580,000 | 3,580,000 | 3,580,000 |
| Share issued | $ 35,800,002 | $ 35,800,002 | $ 35,800,002 |

As of March 31, 2017, December 31, 2016 and March 31, 2016, the balance of the Company's capital account amounted to $35,800,002 thousand, divided into 3,580,000 thousand shares with par value of NT$10.00 per share.

b. Capital surplus

| | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|---|---|---|---|
| May be used to offset a deficit, distributed as cash dividends, or transferred to share capital* | | | |
| Arising from treasury share transactions | $ 2,299,513 | $ 2,299,513 | $ 2,298,761 |
| Arising from conversion of bonds | 136,352 | 136,352 | 136,352 |
| May be used to offset a deficit only | | | |
| Arising from changes in percentage of ownership interest in subsidiaries | 6,042 | 6,042 | 6,042 |
| May not be used for any purpose | | | |
| Arising from share of changes in capital surplus of associates | 29,137 | 29,137 | 29,137 |
| | $ 2,471,044 | $ 2,471,044 | $ 2,470,292 |

* Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's capital surplus and once a year).

c. Retained earnings and dividend policy

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees, directors and supervisors. The shareholders held their regular meeting on June 16, 2016 and in that meeting, had resolved amendments to the Company's Articles of Incorporation (the "Articles"), particularly the amendment to the policy on dividend distribution and the addition of the policy of employees' compensation and remuneration to directors and supervisors.

Amendments of the Company's Articles of Incorporation was summarized as follows:

The Company distributes employees' compensation and remuneration of directors and supervisors at the rates of no less than 1% and no higher than 1% of net profit before income tax, respectively. The board of directors will approve distribution of employees' compensation in shares or cash, include the employees of subsidiaries of the Company meeting certain criteria.

The Company should preserve capital in advance to cover all losses and then distribute employees' compensation and remuneration of directors and supervisors at prior ratios.

The phrase "the employees of subsidiaries of the Company meeting certain criteria" from a paragraph above indicates that the board of directors is authorized to determine the above "certain criteria" or the board of directors may authorize the Chairman to ratify the above "certain criteria".

If the Company has surplus earnings at the end of a fiscal year, after covering all losses incurred in prior years and paying all taxes, the Company shall appropriate 10% of the earnings as legal reserve. However, legal reserve need not be made when the accumulated legal reserve equals the paid-in capital of the Company. The Company shall appropriate special reserve to or reverse special reserve from appropriated earnings based on the applicable laws and regulations. Any remaining balance of distributable earnings resolved by the shareholders will be retained partially by the Company to be distributed to shareholders.

The Company's dividend policy is based on the Company Act and the Company's Articles of Incorporation and also based on the Company's capital, financial structure, earnings, industry properties and cycle. Accounting for the future operating scale and cash flow requirements, the Company should distribute no lower than 50% of available distributed earnings as dividends, which can be distributed as share dividends or cash dividends. To improve the Company's future operation, the cash dividends cannot be lower than 50% of total dividends.

For information about the accrual basis of the employees' compensation and remuneration of directors and supervisors and the actual appropriations, please refer to Note 20 on employee benefits expenses.

The appropriation of earnings to legal reserve shall be made until the legal reserve equals the Company's paid-in capital. Legal reserve may be used to offset deficit. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

Pursuant to existing regulations, the Company is required to set aside additional special capital reserve equivalent to the net debit balance of the other components of shareholders' equity, such as the accumulated balance of foreign currency translation reserve, unrealized valuation gain/loss from available-for-sale financial assets, net amount of fair value below the cost of the Company's share capital held by subsidiaries, etc. For the subsequent decrease in the deduction amount to shareholders' equity, any special reserve appropriated may be reversed to the extent that the net debit balance reverses.

Except for non-ROC resident shareholders, all shareholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Company.

The appropriations of earnings for 2016 and 2015 were proposed by the board of directors on March 24, 2017, and was approved in the shareholders' meetings on June 16, 2016, respectively, as follows:

| | Appropriation of Earnings | | Dividends Per Share (NT$) | |
|---|---|---|---|---|
| | **For Year 2016** | **For Year 2015** | **For Year 2016** | **For Year 2015** |
| Legal reserve | $ 289,779 | $ 208,606 | | |
| (Reversal of) special reserve | (1,363,634) | 1,395,063 | | |
| Cash dividends | 2,148,000 | 358,000 | $ 0.60 | $ 0.10 |
| | $ 1,074,145 | $ 1,961,669 | | |

The appropriations of earnings for 2016 are subject to the resolution of the shareholders in their meeting to be held on June 13, 2017.

d. Other equity items

1) Exchange differences on translation of foreign financial statements

| | Three Months Ended March 31 | |
|---|---|---|
| | **2017** | **2016** |
| Balance at January 1 | $ 23,433 | $ 88,771 |
| Exchange differences arising on translating the financial statements of foreign operations | (127,698) | (19,914) |
| Balance at March 31 | $ (104,265) | $ 68,857 |

The exchange differences arising on translation of foreign operation's net assets from its functional currency to the Group's presentation currency are recognized directly in other comprehensive income and also accumulated in the foreign currency translation reserve.

2) Unrealized gain (loss) on available-for-sale financial assets

| | Three Months Ended March 31 | |
|---|---|---|
| | **2017** | **2016** |
| Balance at January 1 | $ 1,176,299 | $ (1,436,767) |
| Unrealized gain arising on revaluation of available-for-sale financial assets | 768,336 | 317,524 |
| Share of unrealized gain on revaluation of available-for-sale financial assets of associates accounted for using equity method | 683,909 | 229,730 |
| Balance at March 31 | $ 2,628,544 | $ (889,513) |

Unrealized gain/loss on available-for-sale financial assets represents the cumulative gains or losses arising from the fair value measurement on available-for-sale financial assets that are recognized in other comprehensive income. When those available-for-sale financial assets have been disposed of or are determined to be impaired subsequently, the related cumulative gains or losses in other comprehensive income are reclassified to profit or loss.

e. Treasury shares

1) Treasury shares transactions for the three months ended March 31, 2017 were summarized as follows:

| Purpose of Buyback | Treasury Shares Held as of January 1, 2017 | Increase During the period | Decrease During the period | Treasury Shares Held as of March 31, 2017 |
|---|---|---|---|---|
| Share capital held by subsidiaries | 7,518,364 | - | - | 7,518,364 |

2) Treasury shares transactions for the three months ended March 31, 2016 were summarized as follows:

| Purpose of Buyback | Treasury Shares Held as of January 1, 2016 | Increase During the period | Decrease During the period | Treasury Shares Held as of March 31, 2016 |
|---|---|---|---|---|
| Share capital held by subsidiaries | 7,518,364 | - | - | 7,518,364 |

The Company's shares held by its subsidiaries at the end of the reporting periods were as follows:

| Name of Subsidiary | Number of Shares Held | Carrying Value | Market Value |
|---|---|---|---|
| March 31, 2017 | | | |
| Baystar Holdings Ltd. | 7,518,364 | $ 106,387 | $ 127,812 |
| December 31, 2016 | | | |
| Baystar Holdings Ltd. | 7,518,364 | $ 106,387 | $ 74,958 |
| March 31, 2016 | | | |
| Baystar Holdings Ltd. | 7,518,364 | $ 106,387 | $ 71,049 |

Based on the Securities and Exchange Act of the ROC, the Company shall neither pledge treasury shares nor exercise shareholders' rights on these shares, such as rights to dividends and to vote.

The purpose of holding the shares is to maintain shareholders' equity. The Company's shares held by subsidiaries were treated as treasury shares, and the holders are entitled to the rights of shareholders, except for the right to participate in the Company's share issuance for cash and vote in shareholders' meeting when the subsidiary held more than 50%. Other rights are the same as share capital.

f. Non-controlling interests

| | Three Months Ended March 31 | |
|---|---|---|
| | 2017 | 2016 |
| Balance at January 1 | $ 1,299,838 | $ 1,196,568 |
| Attributable to non-controlling interests | | |
| Share of profit for the period | 36,547 | 31,227 |
| Exchange difference on translation of foreign financial statements | (15,466) | (2,294) |
| Unrealized gain arising on revaluation of available-for-sale financial assets | 13,557 | - |
| Balance at March 31 | $ 1,334,476 | $ 1,225,501 |

## 20. EMPLOYEE BENEFITS EXPENSE, DEPRECIATION, AND AMORTIZATION

| | Three Months Ended March 31, 2017 | | | |
|---|---|---|---|---|
| | Classified as Operating Costs | Classified as Operating Expenses | Classified as Non-operating Income and Losses | Total |
| Short-term employee benefits | $ 667,060 | $ 1,086,041 | $ - | $ 1,753,101 |
| Post-employment benefits | $ 30,395 | $ 68,745 | $ - | $ 99,140 |
| Depreciation | $ 1,281,079 | $ 81,065 | $ 1,880 | $ 1,364,024 |
| Amortization | $ 8,324 | $ 15,437 | $ 3,505 | $ 27,266 |

| | Three Months Ended March 31, 2016 | | | |
|---|---|---|---|---|
| | Classified as Operating Costs | Classified as Operating Expenses | Classified as Non-operating Income and Losses | Total |
| Short-term employee benefits | $ 640,615 | $ 1,028,737 | $ - | $ 1,669,352 |
| Post-employment benefits | $ 29,684 | $ 70,825 | $ - | $ 100,509 |
| Depreciation | $ 1,337,461 | $ 97,754 | $ 2,054 | $ 1,437,269 |
| Amortization | $ 8,322 | $ 11,244 | $ 2,925 | $ 22,491 |

In compliance with the Company Act as amended in May 2015, the Company's shareholders held their meeting on June 16, 2016 and resolved amendments to the Company's Articles. The amendments stipulate distribution of the compensation of employees and remuneration of directors and supervisors at the rates no higher than 1% and no less than 1%, respectively, of net profit before income tax, remuneration to directors and supervisors, and compensation of employees. For the three months ended March 31, 2017 and 2016, the employees' compensation was $8,305 thousand and $9,391 thousand, and the remuneration of directors and supervisors was $8,305 thousand and $9,391 thousand, representing 1% of the base net profit (offset of deficit included), respectively. Material differences between such estimated amounts and the amounts proposed by the board of directors on or before the date of authorization of the annual consolidated financial statements for issue are adjusted in the year the bonus and remuneration were recognized. If there is a change in the proposed amounts after the annual consolidated financial statements were authorized for issue, the differences are recorded as a change in accounting estimate.

The compensation to employees and remuneration to the directors and supervisors of 2016 and 2015 were approved by the Company's board of directors on February 3, 2017 and January 29, 2016, respectively. After the amendments to the Articles were resolved in the shareholders' meeting held on June 16, 2016, the appropriations of the compensation of employees and of the remuneration of directors and supervisors for 2015 were reported in the shareholders' meeting.

| | Year Ended December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Employees' compensation | $ 34,400 | $ 28,475 |
| Remuneration of directors and supervisors | 34,400 | 28,475 |

There was no difference between the actual amounts of the compensation of employees and remuneration of directors and supervisors paid and the amounts recognized in the consolidated financial statements for the years ended December 31, 2016 and 2015.

Information on the compensation to employees and remuneration to the directors and supervisors resolved by the Company's board of directors in 2017 and 2016 is available on the Market Observation Post System website of the Taiwan Stock Exchange.

## 21. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Income tax recognized in profit or loss

Reconciliation of accounting profit and income tax expense were as follows:

| | Three Months Ended March 31 | |
|---|---|---|
| | **2017** | **2016** |
| Income tax expense from continuing operations at the statutory rate | $ 169,329 | $ 190,847 |
| Tax effect of adjustment item | | |
| Permanent differences | (12,267) | 4,186 |
| Current income tax | 157,062 | 195,033 |
| Deferred income tax | 799 | (3,714) |
| Adjustment for prior years' tax | 2,142 | 215 |
| Income tax expense recognized in profit or loss | $ 160,003 | $ 191,534 |

The applicable tax rate used above is the corporate tax rate of 17% payable by the Group in ROC, while the applicable tax rate used by subsidiaries in China is 25%. Tax rates used by other group entities operating in other jurisdictions are based on the tax laws in those jurisdictions.

b. The information on the Company's integrated income tax was as follows:

| | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|---|---|---|---|
| Balance of imputation credit account | $ 51,410 | $ 51,410 | $ 381,867 |
| Undistributed earnings for the years of 1998 and thereafter | $ 3,639,817 | $ 2,952,901 | $ 2,862,370 |

The Company had no undistributed earnings for the years of 1997 and before.

| | Three Months Ended March 31 | |
|---|---|---|
| | 2016 (Expected) | 2015 |
| Creditable ratio for distribution of earnings | 2.16% | 20.48% |

According to the revised Article 66 - 6-1 of the Income Tax Law, the creditable ratio for individual shareholders residing in the Republic of China will be half of the original creditable ratio.

The imputation credit allocated to shareholders is based on its balance as of the date of the dividend distribution. The estimated creditable ratio may change when the actual distribution of the imputation credit is made.

c. The Company's tax returns through 2014 have been assessed by the tax authorities.

## 22. EARNINGS PER SHARE

| | Three Months Ended March 31 | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | | 2016 | | |
| | Amounts (Numerator) After Income Tax (Attributable to Owners of the Parent) | Shares (Denominator) (In Thousands) | Earnings Per Share (In Dollars) After Income Tax (Attributable to Owners of the Parent) | Amounts (Numerator) After Income Tax (Attributable to Owners of the Parent) | Shares (Denominator) (In Thousands) | Earnings Per Share (In Dollars) After Income Tax (Attributable to Owners of the Parent) |
| Basic earnings per share | | | | | | |
| Net income attributed to common shareholders | $ 686,916 | 3,572,482 | $ 0.19 | $ 776,310 | 3,572,482 | $ 0.22 |
| Effect of dilutive potential common share | | | | | | |
| Employees' compensation | - | 2,684 | | - | 994 | |
| Diluted earnings per share | | | | | | |
| Net income attributed to common shareholders | $ 686,916 | 3,575,166 | $ 0.19 | $ 776,310 | 3,573,476 | $ 0.22 |

If the Company may settle the compensation or bonus to employees by cash or shares, the Company should presume that the entire amount of the compensation or bonus will be settled in shares and the resulting potential shares should be included in the weighted average number of shares outstanding used in the calculation of diluted EPS, if the shares have a dilutive effect. Such dilutive effect of the potential shares should be included in the calculation of diluted EPS until the shareholders resolve the number of shares to be distributed to employees at their meeting in the following year.

## 23. NON-CASH TRANSACTIONS

| | Three Months Ended March 31 | |
|---|---|---|
| | 2017 | 2016 |
| Non-cash investing and financing activities | | |
| Long-term borrowings, current portion | $ 3,090,180 | $ 4,352,267 |
| Exchange differences on translation of foreign financial statements | $ (127,698) | $ (19,914) |
| Unrealized gains on available-for-sale financial assets | $ 1,452,245 | $ 547,254 |

## 24. OPERATING LEASE ARRANGEMENTS

### The Group as Lessee

a. Lease arrangements

NTC and the Company leased land from Science Park Administration, and the lease term will expire in 2017 and 2023, respectively, which can be extended after the expiration of the lease periods.

NTC leased a land from Taiwan Sugar Corporation. Under a twenty-year term from October 2014 to September 2034, which is allowed to extend upon the expiration of lease. The chairman of NTC is a joint guarantor of such lease, please refer to Note 26.

The Group leased some of the offices in the United States, China, Japan, Israel, India, and part in Taiwan, and the lease terms will expire between 2017 and 2022 which can be extended after the expiration of the lease periods.

As of March 31, 2017, December 31, 2016 and March 31, 2016, deposits paid under operating leases amounted to $62,908 thousand, $62,109 thousand and $59,841 thousand, respectively (recorded as "other non-current assets").

b. Prepayments for lease obligations

| | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|---|---|---|---|
| Current (recorded as "other current assets") | $ 2,382 | $ 4,112 | $ 2,887 |
| Non-current (recorded as "other non-current assets") | 39,296 | 39,892 | 41,678 |
| | $ 41,678 | $ 44,004 | $ 44,565 |

c. Lease expense

| | Three Months Ended March 31 | |
|---|---|---|
| | 2017 | 2016 |
| Lease expenditure | $ 52,671 | $ 54,276 |

### The Group as Lessor

Operating lease agreements

Operating leases relate to leasing the investment property with lease terms of 3-5 years, and with an extension option. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have a bargain purchase option to acquire the property at the expiry of the lease period.

As of March 31, 2017, December 31, 2016 and March 31, 2016, deposits received under operating leases amounted to $1,824 thousand, $1,911 thousand and $2,017 thousand, respectively (recorded as "other non-current liabilities").

## 25. CAPITAL MANAGEMENT

The Group's capital management objective is to ensure it has the necessary financial resources and operational plan so that it can cope with the next twelve months working capital requirements, capital expenditures, research and development activities, debt repayments and dividends payments.

## 26. RELATED PARTY TRANSACTIONS

a. The names and relationships of related parties are as follows:

| Related Party | Relationship with the Group |
|---|---|
| Walsin Lihwa Corporation | Investor that exercises significant influence over the Group |
| Nyquest Technology Co., Ltd. | Related party in substance |
| Walton Advanced Engineering Inc. | Related party in substance |
| Global Brands Manufacture (Dongguan) Ltd. | Related party in substance |
| Walton Advanced Engineering Ltd. (Suzhou) | Related party in substance |
| Chin Cherng Construction Co., Ltd. | Related party in substance |

b. Operating activities

| | Three Months Ended March 31 | |
|---|---|---|
| | **2017** | **2016** |
| 1) Operating revenue | | |
| Related party in substance | $ 54,401 | $ 71,217 |
| 2) Manufacturing expenses | | |
| Related party in substance | $ 559,772 | $ 691,293 |
| 3) General and administrative expenses | | |
| Investor that exercises significant influence over the Group | $ 2,038 | $ 2,130 |
| Related party in substance | 2,635 | 2,583 |
| | $ 4,673 | $ 4,713 |

| | **March 31, 2017** | **December 31, 2016** | **March 31, 2016** |
|---|---|---|---|
| 4) Accounts receivable due from related parties | | | |
| Related party in substance | $ 36,044 | $ 49,531 | $ 45,297 |
| 5) Accounts payable to related parties | | | |
| Related party in substance | $ 476,618 | $ 472,489 | $ 622,924 |

| | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|---|---|---|---|
| 6) Other current assets | | | |
| Investor that exercises significant influence over the Group | $ 349 | $ 340 | $ 275 |
| 7) Other payables | | | |
| Related party in substance | $ 23,795 | $ 32,820 | $ 20,829 |
| Investor that exercises significant influence over the Group | 1,147 | 6 | 722 |
| | $ 24,942 | $ 32,826 | $ 21,551 |
| 8) Refundable deposits (recorded as "other non-current assets") | | | |
| Related party in substance | $ 1,722 | $ 1,722 | $ 1,722 |
| Investor that exercises significant influence over the Group | 203 | 203 | 203 |
| | $ 1,925 | $ 1,925 | $ 1,925 |

The related party transactions were conducted under normal terms.

c. Guarantee

As of March 31, 2017, the chairman of NTC is a joint guarantor of the land-leasing from Taiwan Sugar Corporation. Please refer to Note 24.

d. Compensation of key management personnel

| | Three Months Ended March 31 | |
|---|---|---|
| | 2017 | 2016 |
| Short-term employment benefits | $ 72,930 | $ 57,162 |
| Post-employment benefits | 2,542 | 1,848 |
| | $ 75,472 | $ 59,010 |

The remuneration of directors and key management personnel was suggested by the remuneration committee having regard to the performance of individuals and market trends. And the remuneration was resolved by the board of directors.

## 27. PLEDGED AND COLLATERALIZED ASSETS

Please refer to Note 6, Note 10, Note 14 and Note 17.

## 28. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

a. Amounts available under unused letters of credit as of March 31, 2017 were approximately US$26,024 thousand, EUR352 thousand and JPY1,942,124 thousand.

b. Signed construction contract

| | Total Contract Price | Payment as of March 31, 2017 |
|---|---|---|
| TASA Construction Corporation | $ 2,374,000 | $ 1,187,796 |

## 29. FINANCIAL INSTRUMENT

a. Fair value of financial instruments

1) Valuation techniques and assumptions used in fair value measurement

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes publicly traded stocks, mutual funds and convertible bonds).

- Forward exchange contracts and cross currency swap contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

- The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

2) Fair value measurements recognized in the consolidated balance sheets

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

3) Fair value of financial instruments that are not measured at fair value

Fair value hierarchy as at March 31, 2017

| | Carrying Amount | Fair Value | | | |
|---|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 | Total |
| Financial assets measured at cost | | | | | |
| Domestic emerging securities | | | | | |
| Equity securities | $ 493 | $ - | $ 275 | $ - | $ 275 |

Fair value hierarchy as at December 31, 2016

| | Carrying Amount | Fair Value | | | |
|---|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 | Total |
| Financial assets measured at cost | | | | | |
| Domestic emerging securities | | | | | |
| Equity securities | $ 493 | $ - | $ 267 | $ - | $ 267 |

Fair value hierarchy as at March 31, 2016

| | Carrying Amount | Fair Value | | | |
|---|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 | Total |
| Financial assets measured at cost | | | | | |
| Domestic emerging securities | | | | | |
| Equity securities | $ 493 | $ - | $ 262 | $ - | $ 262 |

4) Fair value of financial instruments that are measured at fair value on a recurring basis

Fair value hierarchy as at March 31, 2017

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets at FVTPA | | | | |
| Derivative financial assets (not under hedge accounting) | $ - | $ 48,240 | $ - | $ 48,240 |
| Available-for-sale financial assets | | | | |
| Domestic listed securities | | | | |
| Equity securities | $ 5,200,350 | $ - | $ - | $ 5,200,350 |
| Overseas listed securities | | | | |
| Equity securities | 179,280 | - | - | 179,280 |
| Mutual funds | 23,922 | - | - | 23,922 |
| | $ 5,403,552 | $ - | $ - | $ 5,403,552 |

Fair value hierarchy as at December 31, 2016

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets at FVTPA | | | | |
| Derivative financial assets (not under hedge accounting) | $ - | $ 5,559 | $ - | $ 5,559 |
| Available-for-sale financial assets | | | | |
| Domestic listed securities | | | | |
| Equity securities | $ 4,422,823 | $ - | $ - | $ 4,422,823 |
| Overseas listed securities | | | | |
| Equity securities | 186,110 | - | - | 186,110 |
| Mutual funds | 24,873 | - | - | 24,873 |
| | $ 4,633,806 | $ - | $ - | $ 4,633,806 |
| Financial liabilities at FVTPL | | | | |
| Derivative financial liabilities (not under hedge accounting) | $ - | $ 47,288 | $ - | $ 47,288 |

Fair value hierarchy as at March 31, 2016

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets at FVTPL | | | | |
| Derivative financial assets (not under hedge accounting) | $ - | $ 86,637 | $ - | $ 86,637 |
| Available-for-sale financial assets | | | | |
| Domestic listed securities | | | | |
| Equity securities | $ 3,077,410 | $ - | $ - | $ 3,077,410 |
| Overseas listed securities | | | | |
| Equity securities | 112,046 | - | - | 112,046 |
| Mutual funds | 26,333 | - | - | 26,333 |
| | $ 3,215,789 | $ - | $ - | $ 3,215,789 |

There were no transfers between the levels for the three months ended March 31, 2017 and 2016, respectively.

b. Categories of financial instruments

Fair values of financial assets and liabilities were summarized as follows:

| | March 31, 2017 | | December 31, 2016 | | March 31, 2016 | |
|---|---|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial assets | | | | | | |
| Loans and receivables | | | | | | |
| Cash and cash equivalents | $ 6,123,622 | $ 6,123,622 | $ 7,683,817 | $ 7,683,817 | $ 7,108,327 | $ 7,108,327 |
| Notes and accounts receivable (included related parties) | 5,339,620 | 5,339,620 | 5,806,346 | 5,806,346 | 5,324,869 | 5,324,869 |
| Other receivables | 546,776 | 546,776 | 518,048 | 518,048 | 775,458 | 775,458 |
| Refundable deposits (recorded in other non-current assets) | 178,465 | 178,465 | 181,134 | 181,134 | 176,438 | 176,438 |
| Financial assets at FVTPL | 48,240 | 48,240 | 5,559 | 5,559 | 86,637 | 86,637 |
| Available-for-sale financial assets (current and non-current) | 5,403,552 | 5,403,552 | 4,633,806 | 4,633,806 | 3,215,789 | 3,215,789 |
| Financial assets measured at cost | 611,699 | 611,481 | 611,699 | 611,473 | 727,786 | 727,555 |
| Financial liabilities | | | | | | |
| Measured at amortized cost | | | | | | |
| Notes and accounts payable (included related parties) | 4,724,940 | 4,724,940 | 4,682,209 | 4,682,209 | 4,410,631 | 4,410,631 |
| Payable on equipment and other payables | 5,488,040 | 5,488,040 | 6,612,967 | 6,612,967 | 3,091,089 | 3,091,089 |
| Long-term borrowings (included current portion) | 9,784,260 | 9,784,260 | 9,784,260 | 9,784,260 | 13,136,527 | 13,136,527 |
| Long-term contract payable (recorded in other non-current liabilities) | 10,753 | 10,753 | 22,868 | 22,868 | 22,822 | 21,241 |
| Guarantee deposits (recorded in other non-current liabilities) | 84,451 | 84,451 | 86,518 | 86,518 | 55,828 | 55,828 |
| Financial liabilities at FVTPL | - | - | 47,288 | 47,288 | - | - |

c. Financial risk management objectives and policies

The Group’s major financial instruments included equity and debt investments, borrowings, accounts receivable and accounts payable. The Group’s Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk, credit risk and liquidity risk.

The use of financial derivatives was governed by the Group’s policies approved by the board of directors, which provide written principles on foreign exchange risk, and use of financial derivatives. Compliance with policies and exposure limits was reviewed by the internal auditors on a continuous basis.

1) Market risk

The Group’s activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group uses forward foreign exchange contracts to hedge the foreign currency risk on export.

There had been no change to the Group’s exposure to market risks or the manner in which these risks were managed and measured.

a) Foreign currency risk

The Group uses forward foreign exchange contracts to hedge the exchange rate risk within approved policy parameters utilizing forward foreign exchange contracts.

The sensitivity analysis included only outstanding foreign currency denominated monetary items at the end of the reporting period and an increase in net income and equity if New Taiwan dollars strengthen by 1% against foreign currencies. For a 1% weakening of New Taiwan dollars against U.S. dollars, there would be impact on net income in the amounts of $25,235 thousand and $28,294 thousand increase for the three months ended March 31, 2017 and 2016, respectively.

b) Interest rate risk

The Group's interest rate risk arises primarily from floating rate deposits and borrowings.

The carrying amount of the Group's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows:

| | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|---|---|---|---|
| Cash flow interest rate risk | | | |
| Financial assets | $ 29,972 | $ 29,165 | $ 29,114 |
| Financial liabilities | 9,784,260 | 9,784,260 | 13,136,527 |

The sensitivity analyses below were determined based on the Group's exposure to interest rates for fair value of variable-rate derivatives instruments at the end of the reporting period. If interest rates had been higher by one percentage point, the Group's cash flows for the three months ended March 31, 2017 and 2016 would have increased by $97,543 thousand and $131,074, respectively.

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group.

The Group adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. In order to minimize credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue receivables. In addition, the Group reviews the recoverable amount of each individual accounts receivables at the end of the reporting period to ensure that adequate impairment losses are recognized for irrecoverable amounts. In this regard, the directors of the Group consider that the Group's credit risk was significantly reduced.

3) Liquidity risk

The Group has enough operating capital to comply with loan covenants; liquidity risk is low.

The Group's non-derivative financial liabilities and their agreed repayment period were as follows:

| | March 31, 2017 | | | |
|---|---|---|---|---|
| | Within 1 Year | 1-2 Years | Over 2 Years | Total |
| Non-derivative financial liabilities | | | | |
| Non-interest bearing | $ 10,212,980 | $ 10,753 | $ - | $ 10,223,733 |
| Variable interest rate liabilities | 3,090,180 | 2,723,520 | 3,970,560 | 9,784,260 |
| | $ 13,303,160 | $ 2,734,273 | $ 3,970,560 | $ 20,007,993 |

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | Within 1 Year | 1-2 Years | Over 2 Years | Total |
| Non-derivative financial liabilities | | | | |
| Non-interest bearing | $ 11,295,176 | $ 11,434 | $ 11,434 | $ 11,318,044 |
| Variable interest rate liabilities | 3,090,180 | 2,723,520 | 3,970,560 | 9,784,260 |
| | $ 14,385,356 | $ 2,734,954 | $ 3,981,994 | $ 21,102,304 |

| | March 31, 2016 | | | |
|---|---|---|---|---|
| | Within 1 Year | 1-2 Years | Over 2 Years | Total |
| Non-derivative financial liabilities | | | | |
| Non-interest bearing | $ 7,501,720 | $ 10,716 | $ 10,525 | $ 7,522,961 |
| Variable interest rate liabilities | 4,352,267 | 3,090,180 | 5,694,080 | 13,136,527 |
| | $ 11,853,987 | $ 3,100,896 | $ 5,704,605 | $ 20,659,488 |

## 30. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the Group entities and the exchange rates between foreign currencies and respective functional currencies were disclosed.

The significant assets and liabilities denominated in foreign currencies were as follows:

| | March 31, 2017 | | | December 31, 2016 | | | March 31, 2016 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Foreign Currencies (Thousand) | Exchange Rate (Note 1) | New Taiwan Dollars (Thousand) | Foreign Currencies (Thousand) | Exchange Rate (Note 1) | New Taiwan Dollars (Thousand) | Foreign Currencies (Thousand) | Exchange Rate (Note 1) | New Taiwan Dollars (Thousand) |
| Financial assets | | | | | | | | | |
| Monetary items | | | | | | | | | |
| USD | $ 195,034 | 30.33 | $ 5,915,368 | $ 199,411 | 32.25 | $ 6,431,008 | $ 183,445 | 32.185 | $ 5,904,162 |
| USD | 15,029 | 111.80 (Note 2) | 455,835 | 15,393 | 117.02 (Note 2) | 496,419 | 12,091 | 112.42 (Note 2) | 389,136 |
| EUR | 1,571 | 32.43 | 50,953 | 2,710 | 33.90 | 91,878 | 1,398 | 36.51 | 51,024 |
| JPY | 2,159,876 | 0.2713 | 585,974 | 2,555,860 | 0.2756 | 704,395 | 993,678 | 0.2863 | 284,490 |
| RMB | 24,534 | 4.407 | 108,122 | 48,389 | 4.617 | 223,412 | 61,035 | 4.972 | 303,465 |
| ILS | 22,398 | 8.3554 | 187,146 | 14,568 | 8.3882 | 122,202 | 18,100 | 8.5279 | 154,353 |
| Non-monetary items | | | | | | | | | |
| USD | 13,759 | 30.33 | 417,317 | 13,759 | 32.25 | 443,734 | 13,774 | 32.185 | 443,333 |
| Financial liabilities | | | | | | | | | |
| Monetary items | | | | | | | | | |
| USD | 111,384 | 30.33 | 3,378,274 | 118,730 | 32.25 | 3,829,048 | 95,136 | 32.185 | 3,061,964 |
| USD | 8,832 | 111.80 (Note 2) | 267,881 | 9,587 | 117.02 (Note 2) | 309,171 | 5,894 | 112.42 (Note 2) | 189,711 |
| EUR | 2,306 | 32.43 | 74,792 | 3,395 | 33.90 | 115,082 | 1,609 | 36.51 | 58,759 |
| JPY | 2,004,709 | 0.2713 | 543,878 | 2,712,845 | 0.2756 | 747,660 | 788,678 | 0.2863 | 225,799 |
| ILS | 20,197 | 8.3554 | 168,753 | 14,002 | 8.3882 | 117,453 | 18,884 | 8.5279 | 161,037 |

Note 1: Except as otherwise noted, exchange rate represents the number of New Taiwan dollars for which one foreign currency could be exchanged.

Note 2: The exchange rate represents the number of JPY for which one U.S. dollars could be exchanged.

For the three months ended March 31, 2017 and 2016, realized and unrealized net foreign exchange loss were $203,608 thousand and $57,279 thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the group entities.

## 31. SEGMENT INFORMATION

a. Basic information about operating segment

1) Classification of operating segments

The Group's reportable segments under IFRS 8 "Operating Segments" and IAS 34 "Interim Financial Reporting" were as follows:

a) Segment of DRAM IC product

The DRAM IC product segment engages mainly in the manufacturing, selling, researching, designing and after-sales service of Mobile RAM and Specialty DRAM.

b) Segment of Flash Memory product

The Flash Memory product segment engages mainly in the manufacturing, selling, researching, designing and after-sales service of Flash Memory product.

c) Segment of Logic IC product

The Logic IC product segment engages mainly in the manufacturing, selling, researching, designing and after-sales service of Logic IC product.

2) Principles of measuring reportable segments, profit, assets and liabilities

The significant accounting principles of each operating segment are the same as those stated in Note 4 to the consolidated financial statements. The Group's operating segment profit or loss represents the profit or loss earned by each segment. The profit or loss is controllable by segment managers and is the basis for assessment of segment performance. Individual segment assets are disclosed as zero since those measures are not reviewed by the chief operating decision maker. Major liabilities are arranged based on the capital cost and deployment of the whole company, which are not controlled by individual segment managers.

b. Segment revenues and operating results

The following was an analysis of the Group's revenue from continuing operations by reportable segments.

| | Segment Revenue | | Segment Profit and Loss | |
|---|---|---|---|---|
| | Three Months Ended March 31 | | Three Months Ended March 31 | |
| | 2017 | 2016 | 2017 | 2016 |
| DRAM IC product | $ 4,908,761 | $ 5,244,401 | $ 958,499 | $ 1,153,965 |
| Flash Memory product | 3,429,494 | 3,016,393 | 358,165 | 385,065 |
| Logic IC product | 2,086,332 | 1,826,092 | 286,654 | 235,207 |
| Total of segment revenue | 10,424,587 | 10,086,886 | 1,603,318 | 1,774,237 |
| Other revenue | 376 | 58 | 376 | 58 |
| Operating revenue | $ 10,424,963 | $ 10,086,944 | | |
| Unallocated expenditure | | | | |
| Administrative and supporting expense | | | (325,089) | (318,299) |
| Sales and other common expenses | | | (354,099) | (449,871) |
| Income from operations | | | 924,506 | 1,006,125 |
| Non-operating income and expenses | | | | |
| Interest income | | | 7,997 | 38,745 |
| Dividend income | | | 921 | - |
| Other income | | | 8,767 | 7,921 |
| Gains on disposal of property, plant and equipment | | | 292 | 342 |
| Gains on financial instruments at fair value through profit or losses | | | 185,255 | 68,911 |
| Interest expenses | | | (16,629) | (52,764) |
| Other expenses | | | (6,193) | (5,809) |
| Foreign exchange losses | | | (203,608) | (57,279) |
| Share of losses of associates accounted for using equity method | | | (17,842) | (7,121) |
| Profit before income tax | | | $ 883,466 | $ 999,071 |