Winbond Electronics Corporation and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2017 and 2016 and Independent Auditors' Report

Deloitte.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Winbond Electronics Corporation

Opinion

We have audited the accompanying consolidated financial statements of Winbond Electronics Corporation (the Company) and its subsidiaries (collectively referred as the Group), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of the most significance in our audit of the consolidated financial statements for the year ended December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of Accounts Receivable

The recognition of allowances for doubtful accounts is subject to management's estimation of the recoverable amount of past due and uncollectible accounts receivable, and the impairment loss on accounts receivable is influenced by management's assumptions of customer credit risk. We especially pay attention to material and slow-collecting balances of accounts receivable and the rationale of impairment loss provisioned by management.

Accounting policies for accounts receivable are set out within Note 4 of the consolidated financial statements. Refer to Note 9 of the consolidated financial statements for disclosures of the carrying amounts of accounts receivable.

Our audit procedures in response to the impairment of accounts receivable included:

1. Evaluating the rationale of the classification and provision rates used in the aging reports of accounts receivable prepared by management, examining the calculation of the aging reports, comparing the aging distribution and actual write-offs of accounts receivable of the current year with those of the prior year and assessing the collectability of outstanding balances of accounts receivable by checking cash collection after the balance sheet date.

2. Inspecting the authorization of customer credit lines and reviewing the transaction records of ledgers to ensure the validity of the internal controls for accounts receivable.

Impairment of Inventory

Fluctuating market prices of inventory caused by rapid changes in market demand and technology development may lead to slow-moving or obsolescent inventory. In addition, the cost allocation of inventory and the net realizable value are subject to management's judgment and estimation. We especially pay attention to the Group's inventory held at the lower of cost and net realizable value in conformity with the requirements of IAS 2 and the reasonableness of the impairment loss of inventory provisioned by management.

The accounting policy for the valuation of inventory is set out within Note 4 of the consolidated financial statements. Refer to Note 10 of the consolidated financial statements for disclosures of the provision amounts of inventory devaluation, obsolescence and scraps.

Our audit procedures in response to inventory valuation included:

1. Obtaining the summary statement of provision loss for inventory prepared by management, testing the aging data of inventory, verifying the calculation of the summary statement and comparing the provision for losses with the actual inventory write-offs to evaluate the validity of the inventory provision policy.

2. Selecting samples of inventory items and comparing the latest actual selling prices with the book values to ensure inventory has been stated at the lower of cost and net realizable value.

3. Comparing the year-end quantity of inventory with the inventory count reports to confirm the existence and completeness of the inventory. Moreover, by attending year-end inventory counting, we assessed the condition of inventory and evaluated the adequacy of the inventory provision for obsolete and damaged goods.

Other Matter

We have also audited the parent company only financial statements of the Company as of and for the years ended December 31, 2017 and 2016 on which we have issued an unmodified opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and IFRS, IAS, IFRIC, and SIC endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance (including audit committees) are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2017 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Hung-Bin Yu and Ker-Chang Wu.

Hung-Bin Yu Ker-Chang Wu

Deloitte & Touche
Taipei, Taiwan
Republic of China

February 2, 2018

<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 audit such consolidated financial statements are those generally applied in the Republic of China.

For the convenience of readers, the independent auditors' 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' report and consolidated financial statements shall prevail.

WINBOND ELECTRONICS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2017 AND 2016
(In Thousand of New Taiwan Dollars)

	2017		2016	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	$ 14,172,441	16	$ 7,683,817	11
Current financial assets at fair value through profit or loss (Notes 4 and 7)	32,745	-	5,559	-
Current available-for-sale financial assets (Notes 4 and 8)	6,502,762	7	4,486,893	7
Notes and accounts receivable, net (Notes 4 and 9)	6,707,490	8	5,756,815	8
Accounts receivable due from related parties, net (Note 26)	33,546	-	49,531	-
Other receivables (Note 6)	654,836	1	518,048	1
Inventories (Notes 4 and 10)	8,139,982	9	7,536,161	11
Other current assets	996,403	1	1,222,919	2
Total current assets	37,240,205	42	27,259,743	40
NON-CURRENT ASSETS				
Non-current available-for-sale financial assets (Notes 4 and 8)	289,789	-	146,913	-
Non-current financial assets measured at cost (Notes 4 and 11)	340,875	1	611,699	1
Investments accounted for using equity method (Notes 4 and 12)	4,430,985	5	2,654,477	4
Property, plant and equipment (Notes 4 and 13)	43,828,707	50	34,372,537	51
Investment properties (Notes 4 and 14)	56,278	-	61,673	-
Intangible assets (Notes 4 and 15)	288,013	-	285,304	-
Deferred income tax assets (Notes 4 and 21)	1,351,087	2	2,353,422	4
Other non-current assets (Note 6)	290,184	-	243,727	-
Total non-current assets	50,875,918	58	40,729,752	60
TOTAL	$ 88,116,123	100	$ 67,989,495	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Note 16)	$ 553,539	1	$ -	-
Current financial liabilities at fair value through profit or loss (Notes 4 and 7)	-	-	47,288	-
Notes and accounts payable	4,420,945	5	4,209,720	6
Accounts payable to related parties (Note 26)	496,787	-	472,489	1
Payables on machinery and equipment	3,734,501	4	3,826,462	6
Other payables	3,516,869	4	2,786,505	4
Long-term borrowings, current portion (Note 16)	3,323,520	4	3,090,180	4
Other current liabilities	194,027	-	173,091	-
Total current liabilities	16,240,188	18	14,605,735	21
NON-CURRENT LIABILITIES				
Long-term borrowings (Note 16)	8,728,773	10	6,638,273	10
Net defined benefit liabilities, non-current (Notes 4 and 17)	1,087,089	1	1,062,706	1
Other non-current liabilities	433,082	1	461,982	1
Total non-current liabilities	10,248,944	12	8,162,961	12
Total liabilities	26,489,132	30	22,768,696	33
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT (Note 18)				
Share capital	39,800,002	45	35,800,002	53
Capital surplus	7,540,440	8	2,471,044	3
Retained earnings				
Legal reserve	498,385	1	208,606	-
Special reserve	31,429	-	1,395,063	2
Unappropriated earnings	7,355,893	8	2,952,901	5
Exchange differences on translation of foreign financial statements	(120,988)	-	23,433	-
Unrealized gains on available-for-sale financial assets	5,107,003	6	1,176,299	2
Treasury shares	-	-	(106,387)	-
Total equity attributable to owners of the parent	60,212,164	68	43,920,961	65
NON-CONTROLLING INTERESTS	1,414,827	2	1,299,838	2
Total equity	61,626,991	70	45,220,799	67
TOTAL	$ 88,116,123	100	$ 67,989,495	100

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

WINBOND ELECTRONICS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousand of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUE	$ 47,591,792	100	$ 42,091,709	100
OPERATING COSTS (Note 10)	31,268,105	66	30,073,937	71
GROSS PROFIT	16,323,687	34	12,017,772	29
OPERATING EXPENSES				
Selling expenses	1,376,250	3	1,243,513	3
General and administrative expenses	1,566,084	3	1,308,571	3
Research and development expenses	6,725,585	14	5,752,732	14
Total operating expenses	9,667,919	20	8,304,816	20
INCOME FROM OPERATIONS	6,655,768	14	3,712,956	9
NON-OPERATING INCOME AND EXPENSES				
Interest income	35,349	-	175,417	-
Dividend income	340,284	1	126,790	-
Other income	58,660	-	38,495	-
Gains (losses) on disposals of property, plant and equipment	1,267	-	(4,520)	-
Gains (losses) on disposals of investments	25,489	-	(1,811)	-
Gains on financial instruments at fair value through profit or loss	215,100	1	55,725	-
Share of profit of associates accounted for using equity method (Note 12)	192,125	-	12,384	-
Interest expenses	(78,625)	-	(187,010)	-
Other expenses	(68,089)	-	(33,008)	-
Foreign exchange losses	(269,799)	(1)	(94,713)	-
Impairment loss on financial assets (Note 11)	(10,000)	-	(30,000)	-
Impairment loss on property, plant and equipment (Note 13)	-	-	(16,085)	-
Total non-operating income and expenses	441,761	1	41,664	-
PROFIT BEFORE INCOME TAX	7,097,529	15	3,754,620	9
INCOME TAX EXPENSE (Notes 4 and 21)	1,274,579	3	614,546	2
NET PROFIT	5,822,950	12	3,140,074	7

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WINBOND ELECTRONICS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousand of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016	
	Amount	**%**	**Amount**	**%**
OTHER COMPREHENSIVE INCOME (LOSS)				
Components of other comprehensive income that will not be reclassified to profit or loss:				
Losses on remeasurement of defined benefit plans (Note 17)	$ (80,813)	-	$ (82,556)	-
Components of other comprehensive income that will be reclassified to profit or loss:				
Exchange differences on translation of foreign financial statements	(155,904)	-	(77,894)	-
Unrealized gains on available-for-sale financial assets	2,402,035	5	1,728,371	4
Share of the other comprehensive income of associates accounted for using equity method	1,584,383	3	917,195	2
Other comprehensive income	3,749,701	8	2,485,116	6
TOTAL COMPREHENSIVE INCOME	$ 9,572,651	20	$ 5,625,190	13
NET PROFIT ATTRIBUTABLE TO:				
Owners of the parent	$ 5,550,562	12	$ 2,897,791	7
Non-controlling interests	272,388	-	242,283	-
	$ 5,822,950	12	$ 3,140,074	7
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the parent	$ 9,263,420	19	$ 5,376,238	13
Non-controlling interests	309,231	1	248,952	-
	$ 9,572,651	20	$ 5,625,190	13
EARNINGS PER SHARE (Note 22)				
Basic	$ 1.54		$ 0.81	
Diluted	$ 1.54		$ 0.81	

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

WINBOND ELECTRONICS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousand of New Taiwan Dollars)

	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
Appropriation of 2015 earnings											
Legal reserve	-	-	208,606	-	(208,606)	-	-	-	-	-	-
Special reserve	-	-	-	1,395,063	(1,395,063)	-	-	-	-	-	-
Cash dividends	-	-	-	-	(358,000)	-	-	-	(358,000)	-	(358,000)
Total appropriations	-	-	208,606	1,395,063	(1,961,669)	-	-	-	(358,000)	-	(358,000)
Net profit for 2016	-	-	-	-	2,897,791	-	-	-	2,897,791	242,283	3,140,074
Other comprehensive income (loss) for 2016	-	-	-	-	(69,281)	(65,338)	2,613,066	-	2,478,447	6,669	2,485,116
Total comprehensive income (loss) for 2016	-	-	-	-	2,828,510	(65,338)	2,613,066	-	5,376,238	248,952	5,625,190
Adjustments of capital surplus for the Company's cash dividends received by subsidiaries	-	752	-	-	-	-	-	-	752	-	752
Decrease in non-controlling interests	-	-	-	-	-	-	-	-	-	(145,682)	(145,682)
BALANCE, DECEMBER 31, 2016	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
Appropriation of 2016 earnings											
Legal reserve	-	-	289,779	-	(289,779)	-	-	-	-	-	-
Reversal of special reserve	-	-	-	(1,363,634)	1,363,634	-	-	-	-	-	-
Cash dividends	-	-	-	-	(2,148,000)	-	-	-	(2,148,000)	-	(2,148,000)
Total appropriations	-	-	289,779	(1,363,634)	(1,074,145)	-	-	-	(2,148,000)	-	(2,148,000)
Net profit for 2017	-	-	-	-	5,550,562	-	-	-	5,550,562	272,388	5,822,950
Other comprehensive income (loss) for 2017	-	-	-	-	(73,425)	(144,421)	3,930,704	-	3,712,858	36,843	3,749,701
Total comprehensive income (loss) for 2017	-	-	-	-	5,477,137	(144,421)	3,930,704	-	9,263,420	309,231	9,572,651
Issue of shares (Note 18)	4,000,000	4,787,673	-	-	-	-	-	-	8,787,673	-	8,787,673
Share-based payments (Note 20)	-	239,200	-	-	-	-	-	-	239,200	-	239,200
Adjustments of capital surplus for the Company's cash dividends received by subsidiaries	-	4,511	-	-	-	-	-	-	4,511	-	4,511
Disposal of the Company's shares by subsidiaries recognized as treasury share transactions (Note 18)	-	38,012	-	-	-	-	-	106,387	144,399	-	144,399
Decrease in non-controlling interests	-	-	-	-	-	-	-	-	-	(194,242)	(194,242)
BALANCE, DECEMBER 31, 2017	$ 39,800,002	$ 7,540,440	$ 498,385	$ 31,429	$ 7,355,893	$ (120,988)	$ 5,107,003	$ -	$ 60,212,164	$ 1,414,827	$ 61,626,991

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

WINBOND ELECTRONICS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousand of New Taiwan Dollars)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	$ 7,097,529	$ 3,754,620
Adjustments for:		
Depreciation expense	5,981,027	5,570,860
Amortization expense	103,348	99,669
Provision for allowance for doubtful accounts	28,351	4,932
Recognition (reversal) of provisions for declines in market value, obsolescence and scraps of inventories	125,748	(44,645)
Net (gain) loss on financial assets and liabilities at fair value through profit or loss	(74,474)	19,302
Interest expense	78,625	187,010
Interest income	(35,349)	(175,417)
Dividend income	(340,284)	(126,790)
Share-based payments	239,200	-
Share of profit of associates accounted for using equity method	(192,125)	(12,384)
(Gain) loss on disposal of property, plant and equipment	(1,267)	4,520
Impairment loss on financial assets	10,000	30,000
Impairment loss on non-financial assets	-	16,111
(Gain) loss on disposal of investments	(25,489)	1,811
Changes in operating assets and liabilities		
Increase in notes and accounts receivable	(922,470)	(576,408)
Decrease in accounts receivable due from related parties	15,985	31,384
Increase in other receivables	(185,922)	(45,677)
(Increase) decrease in inventories	(729,569)	1,044,319
Decrease (increase) in other current assets	226,535	(103,203)
(Increase) decrease in other non-current assets	(46,457)	37
Increase in notes and accounts payable	211,225	366,754
Increase (decrease) in accounts payable to related parties	24,298	(234,575)
Increase in other payables	514,388	355,737
Increase in other current liabilities	20,936	34,437
(Decrease) increase in other non-current liabilities	(72,146)	43,305
Cash generated from operations	12,051,643	10,245,709
Interest received	40,958	34,907
Dividends received	340,284	126,790
Interest paid	(210,451)	(238,139)
Income tax paid	(79,160)	(177,843)
Net cash generated from operating activities	12,143,274	9,991,424
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of available-for-sale financial assets	(68,842)	(504,432)
Proceeds from disposal of available-for-sale financial assets	315,312	146,565
Proceeds from capital reduction of available-for-sale financial assets	6,067	7,913
Proceeds from repayment of held-to-maturity financial assets	-	101,100
Proceeds from disposal of financial assets measured at cost	-	8,243

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WINBOND ELECTRONICS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousand of New Taiwan Dollars)

	2017	2016
Proceeds from capital reduction of financial assets measured at cost	$ 229,651	$ 18,017
Acquisitions of property, plant and equipment	(15,411,661)	(4,988,580)
Proceeds from disposal of property, plant and equipment	2,940	1,121
Acquisition of intangible assets	(103,190)	(111,444)
Decrease in financial lease receivables	-	574,353
Net cash used in investing activities	(15,029,723)	(4,747,144)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	553,539	-
Proceeds from long-term borrowings	6,900,000	1,000,000
Repayments of long-term borrowings	(4,590,180)	(4,352,267)
Cash dividends paid	(2,143,489)	(357,248)
Proceeds from issuing shares	8,800,000	-
Proceeds from sale of treasury shares	144,399	-
Change in non-controlling interests	(205,724)	(158,238)
Other financing activities	(12,327)	(38,600)
Net cash generated from (used in) financing activities	9,446,218	(3,906,353)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(71,145)	(50,725)
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,488,624	1,287,202
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,683,817	6,396,615
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 14,172,441	$ 7,683,817

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

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 22% and 23% ownership interest in the Company as of December 31, 2017 and 2016, respectively.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors on February 2, 2018.

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) (collectively, the "IFRSs") 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 Company and its subsidiaries' (collectively, the "Group") accounting policies:

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.

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 disclosures of the related party transactions will be enhanced when the above amendments are retrospectively applied in 2017. Refer to Note 26.

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) and endorsed by the FSC for application starting from 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
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendment to IFRS 15 "Clarification to IFRS 15"	January 1, 2018
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" and related amendment

<u>Classification, measurement, and impairment of financial assets</u>

With regards to financial assets, all recognized financial assets that are within the scope of IAS 39 "Financial Instruments: Classification and Measurement" are subsequently measured at amortized cost or fair value. Under IFRS 9, the requirement for the classification of financial assets is stated below.

For the Group's debt instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, their classification and measurement are as follows:

a) For debt instruments, if they are held within a business model whose objective is to collect the contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with impairment loss recognized in profit or loss, if any. Interest revenue is recognized in profit or loss by using the effective interest method;

b) For debt instruments, if they are held within a business model whose objective is achieved by both the collecting of contractual cash flows and the selling of financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gain or loss shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

The other financial assets which do not meet aforementioned criteria should be measured at fair value through profit or loss. 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. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

The Group has performed a preliminary assessment of the impact of IFRS 9 to the classification of available-for-sale financial assets, including listed shares, emerging market shares and unlisted shares that will be designated as at fair value through other comprehensive income. The fair value gains or losses accumulated in others equity will be transferred directly to retained earnings instead of being reclassified to profit or loss on disposal. Besides, unlisted shares measured at cost will be measured at fair value instead.

IFRS 9 requires impairment loss on financial assets to be recognized by using the “Expected Credit Losses Model”. A loss allowance is required for financial assets measured at amortized cost. A loss allowance for the 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition and is not low. However, a loss allowance for full lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

For purchased or originated credit-impaired financial assets, the Group takes into account the expected credit losses on initial recognition in calculating the credit-adjusted effective interest rate. Subsequently, any changes in expected losses are recognized as a loss allowance with a corresponding gain or loss recognized in profit or loss.

The Group has performed a preliminary assessment in which it will apply the simplified approach to recognize full-lifetime expected credit losses for trade receivables. In relation to debt instrument investments, the Group will assess whether there has been a significant increase in credit risk to determine whether to recognize 12-month or full-lifetime expected credit losses. In general, the Group anticipates that the application of the expected credit losses model of IFRS 9 will result in an earlier recognition of credit losses for financial assets.

The Group elects not to restate prior reporting periods when applying the requirements for the classification, measurement and impairment of financial assets under IFRS 9 with the cumulative effect of the initial application recognized at the date of initial application and will provide the disclosures related to the classification and the adjustment information upon initial application of IFRS 9.

The anticipated impact on assets, liabilities and equity of retrospective application of the requirements for the classification, measurement and impairment of financial assets on January 1, 2018 is set out below:

	Carrying Amount as of December 31, 2017	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2018
Items of assets, liabilities and equity			
Current financial assets at fair value through profit or loss	$ 32,745	$ -	$ 32,745
Current financial assets at fair value through other comprehensive income	-	6,502,762	6,502,762
Current available-for-sale financial assets	6,502,762	(6,502,762)	-
Non-current financial assets at fair value through other comprehensive income	-	1,008,089	1,008,089
Non-current available-for-sale financial assets	289,789	(289,789)	-
Non-current financial assets measured at cost	340,875	(340,875)	-
Investments accounted for using equity method	4,430,985	108,379	4,539,364
Total effect on assets	$ 11,597,156	$ 485,804	$ 12,082,960
Retained earnings	$ 7,885,707	$ 471,170	$ 8,356,877
Unrealized gains on available-for-sale financial assets	5,107,003	(41,240)	5,065,763
Non-controlling interests	1,414,827	55,874	1,470,701
Total effect on equities	$ 14,407,537	$ 485,804	$ 14,893,341

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.

Except for the above impact, as of the date the 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.

c. The IFRSs issued by IASB but not yet endorsed and issued into effect by the FSC

New IFRSs	Effective Date Issued by IASB (Note 1)
Annual Improvement to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019 (Note 2)
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 16 "Leases"	January 1, 2019 (Note 3)
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"	January 1, 2019
IFRIC 23 "Uncertainty Over Income Tax Treatments"	January 1, 2019

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 FSC permits the election for early adoption of the amendments starting from 2018.

Note 3: On December 19, 2017, the FSC announced that IFRS 16 will take effect starting from January 1, 2019.

1) 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 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 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 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.

2) IFRIC 23 "Uncertainty Over Income Tax Treatments"

IFRIC 23 clarifies that when there is uncertainty over income tax treatments, the Group should assume that the taxation authority will have full knowledge of all related information when making related examinations. If the Group concludes that it is probable that the taxation authority will accept an uncertain tax treatments, the Group should determine the taxable profit, tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatments used or planned to be used in its income tax filings. If it is not probable that the taxation authority will accept an uncertain tax treatment, the Group should make estimates using either the most likely amount or the expected value of the tax treatment, depending on which method the entity expects to better predict the resolution of the uncertainty. The Group has to reassess its judgments and estimates if facts and circumstances change.

On initial application, the Group shall apply IFRIC 23 either retrospectively to each prior reporting period presented, if this is possible without the use of hindsight, or retrospectively with the cumulative effect of the initial application of IFRIC 23 recognized at the date of initial application.

3) Annual Improvements to IFRSs 2015-2017 Cycle

Several standards, including IFRS 3, IFRS 11, IAS 12 and IAS 23 “Borrowing Costs”, were amended in this annual improvement. IAS 23 was amended to clarify that, if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings. The amendment shall be applied prospectively.

Except for the above impact, as of the date the 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 conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed and issued by the FSC.

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 include 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

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

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 which 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 liabilities (assets) are recognized as employee benefits expense in the period in which 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 it occurs. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liabilities (assets) represent the actual deficit in the Group's defined benefit plans. 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.

Share-based Payments Agreements

The fair values at the grant date of the equity-settled share-based payments/employee share options are expensed on a straight-line basis over the vesting period, based on the Group's best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in capital surplus. It is recognized as an expense in full at the grant date if vested immediately.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

a. Current tax

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings. Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

b. Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

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. Impairment of inventory

The 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 the 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 the 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 for an impaired receivable is the difference between the asset's carrying amount and the present value of its estimated future cash flows, discounted at the financial asset's original effective interest rate. If the future cash flows are lower than expected, a significant impairment loss may be recognized.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2017	2016
Cash and deposits in banks	$ 11,749,013	$ 7,129,365
Repurchase agreements collateralized by bonds	2,423,428	554,452
	$ 14,172,441	$ 7,683,817

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:

	December 31	
	2017	2016
Time deposits	$ 191,227	$ 140,621

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

	December 31	
	2017	2016
Time deposits	$ 339,541	$ 213,553

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2017	2016
Financial assets at FVTPL - current		
Derivative financial assets (not under hedge accounting)		
Foreign exchange swap contracts	$ 3,298	$ 5,559
Forward exchange contracts	29,447	-
	$ 32,745	$ 5,559
Financial liabilities at FVTPL - current		
Derivative financial liabilities (not under hedge accounting)		
Forward exchange contracts	$ -	$ 47,288

At the end of the reporting period, outstanding forward exchange contracts not under hedge accounting were as follows:

	Currencies	Maturity Date	Contract Amount (In Thousand)
December 31, 2017			
Sell forward exchange contracts	USD to NTD	2018.01.05-2018.02.23	USD114,550/NTD3,429,554
Foreign exchange swap contracts	USD to NTD	2018.02.02-2018.02.23	USD14,188/NTD423,559
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

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

	December 31	
	2017	**2016**
Listed stocks and exchange traded funds		
Walsin Lihwa Corporation	$ 3,520,000	$ 2,370,000
Hannstar Display Corporation	994,668	975,168
Walsin Technology Corporation	961,077	345,009
Walton Advanced Engineering Inc.	806,009	585,733
Nyquest Technology Co., Ltd.	289,789	146,913
Vanguard Short-Term Corporate Bond ETF	146,318	158,700
Everspin Technologies, Inc.	68,143	-
Telit Communications PLC	6,547	11,806
CIFM Money Market Fund Class B	-	24,873
Wal-Mart Stores, Inc.	-	15,604
Available-for-sale financial assets	$ 6,792,551	$ 4,633,806
Current	$ 6,502,762	$ 4,486,893
Non-current	289,789	146,913
	$ 6,792,551	$ 4,633,806

9. NOTES AND ACCOUNTS RECEIVABLE

	December 31	
	2017	**2016**
Notes receivable	$ 54,203	$ 72
Accounts receivable	6,811,589	5,889,047
Less: Allowance for doubtful accounts	(158,302)	(132,304)
	$ 6,707,490	$ 5,756,815

The average credit period for sales of goods was 30-60 days. Allowances for doubtful accounts is based on the estimated uncollectable amounts determined by reference to the aging of receivables, past dealing experience with the relevant counterparties and consideration of their respective financial positions.

The aging of accounts receivable were as follows:

	December 31	
	2017	**2016**
Not overdue	$ 6,341,970	$ 5,442,035
Overdue 30 days or less	428,890	420,632
Overdue 31-60 days	17,058	7,273
Overdue 61 days and longer	23,671	19,107
	$ 6,811,589	$ 5,889,047

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

	For the Year Ended December 31	
	2017	**2016**
Balance at January 1	$ 132,304	$ 128,424
Add: Provision recognized on accounts receivable	28,351	4,932
Effect of exchange rate changes	(2,353)	(1,052)
Balance at December 31	$ 158,302	$ 132,304

The Group's provision losses on accounts receivable were recognized on a collective basis.

10. INVENTORIES

	December 31	
	2017	**2016**
Finished goods	$ 1,632,997	$ 1,574,361
Work-in-process	5,811,125	5,426,989
Raw materials and supplies	614,338	530,332
Inventories in transit	81,522	4,479
	$ 8,139,982	$ 7,536,161

a. Operating costs for the years ended December 31, 2017 and 2016 included inventory write-downs for the decline in market value, obsolescence and scrap of inventories of $125,748 thousand and reversals of inventory write-downs of $44,645 thousand, respectively. A $316,533 thousand reduction in operating costs for the year ended December 31, 2016 was due to the net realizable value increasing to more than the decline in the market value for inventories.

b. Unallocated fixed manufacturing costs recognized as operating costs in the years ended December 31, 2017 and 2016 amounted to $139,546 thousand and $587,534 thousand, respectively.

11. FINANCIAL ASSETS MEASURED AT COST

	December 31	
	2017	**2016**
LTIP Trust Fund	$ 209,320	$ 466,144
United Industrial Gases Co., Ltd.	81,081	81,081
Yu-Ji Venture Capital Co., Ltd.	21,000	25,000
Harbinger III Venture Capital Corp.	10,976	10,976
Smart Catch International Co., Ltd.	-	10,000
Others	18,498	18,498
Non-current financial assets measured at cost	$ 340,875	$ 611,699

The Group concludes that the fair value of the above unlisted equity investments held by the Group cannot be reliably measured since the wide range of reasonable estimated fair value, and therefore should be measured at cost less impairment at the end of the reporting period.

After proper assessment, the Company recognized an impairment loss on Smart Catch International Co., Ltd. of $10,000 and $30,000 thousand, which was recorded as "impairment loss on financial assets" for the years ended December 31, 2017 and 2016, respectively.

12. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

a. Investments in associates

	December 31	
	2017	2016
Associates that are not individually material		
Chin Xin Investment Co., Ltd.	$ 4,430,985	$ 2,654,477

b. Aggregate information of associates that are not individually material

	For the Year Ended December 31	
	2017	2016
The Group's share of:		
Profit from continuing operations	$ 192,125	$ 12,384
Other comprehensive income	1,584,383	917,195
Total comprehensive income for the year	$ 1,776,508	$ 929,579

As of December 31, 2017 and 2016, 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 years ended December 31, 2017 and 2016 were based on the associates' financial statements audited by independent auditors.

13. PROPERTY, PLANT AND EQUIPMENT

	December 31	
	2017	2016
Land	$ 1,617,532	$ 1,623,646
Buildings	10,312,093	7,228,631
Machinery and equipment	29,380,489	18,581,254
Other equipment	1,114,764	501,933
Construction in progress and prepayments for purchase of equipment	1,403,829	6,437,073
	$ 43,828,707	$ 34,372,537

	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	-	736,366	9,440,271	1,544,609	3,732,567	15,453,813
Disposals	-	(1,151)	(750,064)	(13,528)	-	(764,743)
Reclassified	-	3,444,797	6,093,557	(772,509)	(8,765,845)	-
Transfer to other current assets	-	-	(19)	-	-	(19)
Effect of exchange rate changes	(6,114)	(21,935)	(2,263)	(1,936)	34	(32,214)
Balance at December 31, 2017	$ 1,617,532	$ 25,773,108	$ 108,091,801	$ 4,208,296	$ 1,403,829	$ 141,094,566
Accumulated depreciation and impairment						
Balance at January 1, 2017	$ -	$ 14,386,400	$ 74,729,065	$ 2,949,727	$ -	$ 92,065,192
Depreciation expenses	-	1,089,263	4,728,926	158,197	-	5,976,386
Disposals	-	(772)	(744,541)	(12,838)	-	(758,151)
Effect of exchange rate changes	-	(13,876)	(2,138)	(1,554)	-	(17,568)
Balance at December 31, 2017	$ -	$ 15,461,015	$ 78,711,312	$ 3,093,532	$ -	$ 97,265,859
Cost						
Balance at January 1, 2016	$ 1,625,058	$ 21,494,688	$ 91,709,441	$ 3,260,504	$ 801,152	$ 118,890,843
Additions	-	129,356	1,483,005	238,179	6,203,107	8,053,647
Disposals	-	(225,649)	(225,498)	(40,238)	-	(491,385)
Reclassified	-	221,655	345,082	449	(567,186)	-
Effect of exchange rate changes	(1,412)	(5,019)	(1,711)	(7,234)	-	(15,376)
Balance at December 31, 2016	$ 1,623,646	$ 21,615,031	$ 93,310,319	$ 3,451,660	$ 6,437,073	$ 126,437,729
Accumulated depreciation and impairment						
Balance at January 1, 2016	$ -	$ 13,585,584	$ 70,528,175	$ 2,862,054	$ -	$ 86,975,813
Depreciation expenses	-	1,024,461	4,407,981	133,425	-	5,565,867
Disposals	-	(220,660)	(222,037)	(39,529)	-	(482,226)
Impairment loss	-	-	16,085	-	-	16,085
Effect of exchange rate changes	-	(2,985)	(1,139)	(6,223)	-	(10,347)
Balance at December 31, 2016	$ -	$ 14,386,400	$ 74,729,065	$ 2,949,727	$ -	$ 92,065,192

a. As of December 31, 2017 and 2016, the carrying amounts of $21,256,153 thousand and $20,272,406 thousand of land, buildings and 12-inch fab 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

	For the Year Ended December 31	
	2017	**2016**
Capitalized interest amounts	$ 134,113	$ 49,882
Capitalized interest rates	1.79%	1.87%-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 12-inch fab facilities and acquisition of related equipment. As of December 31 2016, 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. In March 2017, the construction was completed and accepted. Construction in progress and prepayments for purchase of equipment were recorded as “buildings” and “machinery and equipment”, respectively.

d. The Company recognized an impairment loss of $16,085 thousand, which was recorded as “impairment loss on property, plant and equipment” for the year ended December 31, 2016 since the carrying amount of some of equipment is expected to be unrecoverable.

14. INVESTMENT PROPERTIES

	December 31	
	2017	2016
Investment properties, net	$ 56,278	$ 61,673

The investment properties is in Shen-Zhen, China. As of December 31, 2017 and 2016, the fair value of such investment properties were both approximately $200,000 thousand, which was referred by the neighborhood transactions.

	Investment Properties
Cost	
Balance at January 1, 2017	$ 105,650
Effect of exchange rate changes	(1,190)
Balance at December 31, 2017	$ 104,460
Accumulated depreciation and impairment	
Balance at January 1, 2017	$ 43,977
Depreciation expenses	4,641
Effect of exchange rate changes	(436)
Balance at December 31, 2017	$ 48,182
Cost	
Balance at January 1, 2016	$ 114,300
Effect of exchange rate changes	(8,650)
Balance at December 31, 2016	$ 105,650
Accumulated depreciation and impairment	
Balance at January 1, 2016	$ 42,434
Depreciation expenses	4,993
Effect of exchange rate changes	(3,450)
Balance at December 31, 2016	$ 43,977

15. INTANGIBLE ASSETS

	December 31	
	2017	2016
Deferred technical assets, net	$ 285,277	$ 283,732
Other intangible assets, net	2,736	1,572
	$ 288,013	$ 285,304

	Deferred Technical Assets	Other Intangible Assets	Total
Cost			
Balance at January 1, 2017	$ 18,789,610	$ 22,325	$ 18,811,935
Additions	89,897	1,792	91,689
Effect of exchange rate changes	(2,381)	(788)	(3,169)
Balance at December 31, 2017	$ 18,877,126	$ 23,329	$ 18,900,455
Accumulated amortization and impairment			
Balance at January 1, 2017	$ 18,505,878	$ 20,753	$ 18,526,631
Amortization expenses	88,721	607	89,328
Effect of exchange rate changes	(2,750)	(767)	(3,517)
Balance at December 31, 2017	$ 18,591,849	$ 20,593	$ 18,612,442
Cost			
Balance at January 1, 2016	$ 18,689,626	$ 21,713	$ 18,711,339
Additions	101,431	799	102,230
Disposals	-	(68)	(68)
Effect of exchange rate changes	(1,447)	(119)	(1,566)
Balance at December 31, 2016	$ 18,789,610	$ 22,325	$ 18,811,935
Accumulated amortization and impairment			
Balance at January 1, 2016	$ 18,420,206	$ 20,207	$ 18,440,413
Amortization expenses	87,026	614	87,640
Disposals	-	(68)	(68)
Impairment losses recognized	-	26	26
Effect of exchange rate changes	(1,354)	(26)	(1,380)
Balance at December 31, 2016	$ 18,505,878	$ 20,753	$ 18,526,631

The amounts of deferred technical assets were the technical transfer fees 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 lives of the assets. The estimated useful lives of technical assets were based on the economic benefits generated from the assets or the terms of the technical asset contracts.

16. BORROWINGS

a. Short-term borrowings

	December 31, 2017		December 31, 2016	
	Interest Rate %	Amount	Interest Rate %	Amount
Bank lines of credit	0.75	$ 553,539	-	$ -

b. Long-term borrowings

	Period	Interest Rate	December 31 2017	December 31 2016
Secured borrowings				
CTBC Bank Co., Ltd. syndicated loan (IV)	2014.07.07-2019.11.27	1.87%-2.23%	$ 5,200,000	$ 8,166,660
Bank of Taiwan secured medium-term loan	2014.12.29-2021.12.29	1.40%-1.70%	494,080	617,600
Bank of Taiwan syndicated loan (IV)	2016.08.15-2021.12.29	1.79%	6,400,000	1,000,000
			12,094,080	9,784,260
Less: Current portion			(3,323,520)	(3,090,180)
Less: Syndication agreement management fee			(41,787)	(55,807)
			$ 8,728,773	$ 6,638,273

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

a) 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.

b) 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.

c) Refer to Note 13 for collateral on bank borrowings.

2) The collateral on the Bank of Taiwan secured medium-term loan is the land and building of the Company in Zhubei. Refer to Note 13. The principal will be repaid every six months from June 29, 2017 until maturity.

3) Bank of Taiwan Syndicated Loan (IV)

a) 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.

b) 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.

c) Refer to Note 13 for collateral on bank borrowings.

4) 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.

17. RETIREMENT BENEFIT PLANS

a. Defined contribution plan

The Company, MMDC, NTC, SYI and TDC adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

The Group's subsidiaries in the United States, Japan, Hong Kong, Israel and China, contribute each month a specified percentage of the employees' payroll to the retirement fund. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

b. Defined benefit plan

The defined benefit plan adopted by the Company, MMDC and NTC in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contributed amounts equal to 2% of total monthly salaries and wages; NTC and MMDC contributed amounts equal to 15% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Group assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Group is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); and the Group has no right to influence the investment policy and strategy.

The defined benefit plan adopted by WTL and NTIL are calculated on the basis of the service duration and last month salaries before retirement.

The amount included in the consolidated balance sheet in respect of the Group's obligation to its defined benefit plan was as follows:

	December 31	
	2017	**2016**
Present value of the defined benefit obligation	$ 2,619,972	$ 2,464,650
Fair value of the plan assets	(1,532,883)	(1,401,944)
Net defined benefit liabilities, non-current	$ 1,087,089	$ 1,062,706

Movements in net defined benefit liabilities (assets) were as follows:

	Present Value of the Defined Benefit Obligation	**Fair Value of the Plan Assets**	**Net Defined Benefit Liabilities (Assets)**
Balance at January 1, 2017	$ 2,464,650	$ (1,401,944)	$ 1,062,706
Service cost			
Current service cost	73,857	-	73,857
Net interest expense (income)	49,501	(25,618)	23,883
Others	5,118	(4,568)	550
Recognized in profit or loss	128,476	(30,186)	98,290

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Assets)
Remeasurement			
Actuarial loss - realized rate of return less than the discounted rate	$ -	$ 7,620	$ 7,620
Actuarial loss (gain) - changes in financial assumptions	53,267	(22,788)	30,479
Actuarial loss (gain) - experience adjustments	47,440	(4,726)	42,714
Recognized in other comprehensive income	100,707	(19,894)	80,813
Contributions from the employer	-	(153,279)	(153,279)
Benefits paid	(81,237)	80,839	(398)
Account paid	(1,276)	-	(1,276)
Effect of exchange rate changes	8,652	(8,419)	233
Balance at December 31, 2017	$ 2,619,972	$ (1,532,883)	$ 1,087,089
Balance at January 1, 2016	$ 2,015,048	$ (989,079)	$ 1,025,969
Service cost			
Current service cost	68,244	-	68,244
Net interest expense (income)	50,646	(25,104)	25,542
Others	1,710	(1,491)	219
Recognized in profit or loss	120,600	(26,595)	94,005
Remeasurement			
Actuarial loss - realized rate of return less than the discounted rate	-	11,636	11,636
Actuarial loss - changes in demographic assumptions	6,348	-	6,348
Actuarial loss (gain) - changes in financial assumptions	48,610	(10,855)	37,755
Actuarial loss (gain) - experience adjustments	27,386	(569)	26,817
Recognized in other comprehensive income	82,344	212	82,556
Contributions from the employer	-	(132,021)	(132,021)
Benefits paid	(56,655)	55,519	(1,136)
Account paid	(9,919)	-	(9,919)
Reclassified	313,638	(310,367)	3,271
Effect of exchange rate changes	(406)	387	(19)
Balance at December 31, 2016	$ 2,464,650	$ (1,401,944)	$ 1,062,706

(Concluded)

Amounts recognized in profit or loss in respect of these defined benefit plans analyzed by function were as follows:

	For the Year Ended December 31	
	2017	2016
Operating cost	$ 21,601	$ 23,644
Selling expenses	1,939	2,098
General and administrative expenses	10,440	8,791
Research and development expenses	64,310	59,472
	$ 98,290	$ 94,005

Through the defined benefit plans under the Labor Standards Law, the Group is exposed to the following risks:

1) Investment risk: The plan assets are invested in domestic/and foreign/equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.

3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The principal assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2017	2016
Discount rates	1.50%-4.68%	1.50%-4.95%
Expected rates of salary increase	1.00%-3.36%	1.00%-3.00%

If possible reasonable changes in each of the significant actuarial assumptions occur and all other assumptions remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	December 31	
	2017	2016
Discount rates		
0.25%-0.50% increase	$ (90,375)	$ (87,812)
0.25%-0.50% decrease	$ 98,629	$ 92,977
Expected rates of salary increase		
0.25%-0.50% increase	$ 94,367	$ 90,152
0.25%-0.50% decrease	$ (86,949)	$ (85,374)

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the changes in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	December 31	
	2017	2016
The expected contribution to the plan for the next year	$ 165,761	$ 142,486
The average duration of defined benefit obligation	7.29-13.46 years	6.93-13.66 years

18. EQUITY

a. Share capital

	December 31	
	2017	2016
Number of shares authorized (in thousand)	6,700,000	6,700,000
Share authorized	$ 67,000,000	$ 67,000,000
Number of shares issued and fully paid (in thousand)	3,980,000	3,580,000
Share issued	$ 39,800,002	$ 35,800,002

Reconciliation of outstanding shares:

	Shares (In Thousand)	Capital
January 1, 2017	3,580,000	$ 35,800,002
Issuance of ordinary shares	400,000	4,000,000
December 31, 2017	3,980,000	$ 39,800,002
January 1, 2016	3,580,000	$ 35,800,002
December 31, 2016	3,580,000	$ 35,800,002

As of December 31, 2016, the balance of the Company’s capital account amounted to $35,800,002 thousand, divided into 3,580,000 thousand shares with a par value of NT$10.

On September 7, 2017, the Company’s board of directors resolved to issue 400,000 thousand ordinary shares for the need of production capacity expansion, with a par value of NT$10. On October 16, 2017, this resolution was approved by the FSC. The consideration of NT$22 per share was determined as at October 24, 2017, by the Chairman authorized by the board of directors which increased the share capital issued and fully paid and the subscription base date was determined as at December 15, 2017. The cost of issuance of the shares amounted to $12,327 thousand and was recorded as a reduction of capital surplus arising from the issuance of share capital. As of December 31, 2017, the balance of the Company’s capital account amounted to $39,800,002 thousand, divided into 3,980,000 thousand shares with a par value of NT$10.

b. Capital surplus

	December 31	
	2017	2016
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital		
Arising from issuance of share capital	$ 5,026,873	$ -
Arising from treasury share transactions	2,342,036	2,299,513
Arising from conversion of bonds	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
Arising from share of changes in capital surplus of associates	29,137	29,137
	$ 7,540,440	$ 2,471,044

The capital surplus generated from the excess of the issuance price over the par value of capital stock (including the stock issued for new capital, mergers and convertible bonds) 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 stock dividends up to a certain percentage of the Company's paid-in capital. The capital surplus from share of changes in equities of subsidiaries and associates may be used to offset a deficit; however, when generated from issuance of restricted shares for employees, such capital surplus may not be used for any purpose.

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 June 13, 2017; 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:

From the pre-tax net profit of the current year, before deducting remuneration of employees and remuneration of directors and supervisors, no more than 1% shall be allocated as remuneration of directors and supervisors and no less than 1% as remuneration of employees. The remuneration of employees may be distributed in stock or cash upon resolution of the board of directors, and may be distributed to the employees of subsidiaries of the Company meeting certain criteria.

However, if the Company has accumulated losses, the Company shall first set aside an amount for making up losses, and then allocate remuneration of employees and remuneration of directors according to the percentage set forth in the preceding paragraph.

Before establishment of the audit committee, supervisors' remuneration shall be incorporated into directors' remuneration for the purpose of calculation of the distribution ceiling of the directors' remuneration provided in the first paragraph.

The board of directors is authorized to determine the "employees of subsidiaries of the Company meeting certain criteria" set forth in the first paragraph or the board of directors may authorize the Chairman of the board of directors to determine the "employees of subsidiaries of the Company meeting certain criteria" set forth in the first paragraph.

If the Company has pre-tax profits at the end of the current fiscal year, after paying all taxes and covering all accumulated losses, the Company shall set aside 10% of said earnings as legal reserve. However, legal reserve need not be made when the accumulated legal reserve equals the paid-in capital of the Company. After setting aside or reversing special reserve pursuant to applicable laws and regulations and orders of competent authorities or based on the business needs of the Company, if there is any balance, the board of directors may submit a proposal for allocation of the remaining balance and the accumulated undistributed earnings to the shareholders meeting for resolution of distributing bonus and dividends to shareholders.

The Company's dividend distribution policy is made in accordance with the Company Act and the Articles of Incorporation in consideration of factors including capital and financial structure, operating status, retained earnings, industry characteristics and economic cycle. The dividends shall be distributed in a steady manner. With respect to distribution of dividends, in consideration of future operation scale and cash flow needs, no less than 50% of the distributable retained earnings of the current year shall be distributed to shareholders as dividends, which may be distributed in stock dividend or cash dividend, and the distribution of cash dividend shall not be less than 50% of total dividends, so as to maintain continuous growth.

For information about the accrual basis of the employees' compensation and remuneration of directors and supervisors and the actual appropriations, refer to Note 19 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 common shares 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.

As of the date of the Company's board meeting, the appropriations of earnings for 2017 are not subjected.

The appropriations of earnings for 2016 and 2015 were approved in the shareholders' meetings on June 13, 2017 and 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		

d. Other equity items

1) Exchange differences on translation of foreign financial statements

	For the Year Ended December 31	
	2017	2016
Balance at January 1	$ 23,433	$ 88,771
Exchange differences arising on translating the financial statements of foreign operations	(144,421)	(65,338)
Balance at December 31	$ (120,988)	$ 23,433

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

	For the Year Ended December 31	
	2017	2016
Balance at January 1	$ 1,176,299	$ (1,436,767)
Unrealized gain arising on revaluation of available-for-sale financial assets	2,346,321	1,695,871
Share of unrealized gain on revaluation of available-for-sale financial assets of associates accounted for using equity method	1,584,383	917,195
Balance at December 31	$ 5,107,003	$ 1,176,299

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 year of 2017 were summarized as follows:

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

2) Treasury shares transactions for the year of 2016 were summarized as follows:

Purpose of Buyback	Treasury Shares Held as of January 1, 2016	Increase During the Year	Decrease During the Year	Treasury Shares Held as of December 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
December 31, 2016			
Baystar Holdings Ltd.	7,518,364	$ 106,387	$ 74,958

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.

The Company's subsidiary - Baystar Holdings Ltd. (BHL) originally held 7,518,364 shares of the Company's share capital. In August 2017, BHL sold 7,518,364 shares of the Company's share capital in a gain of $38,012 thousand, the Company recorded the transaction as an addition of capital surplus under the treasury shares accounting policy.

f. Non-controlling interests

	For the Year Ended December 31	
	2017	2016
Balance at January 1	$ 1,299,838	$ 1,196,568
Share attributable to non-controlling interests:		
Profit for the year	272,388	242,283
Exchange difference on translation of foreign financial statements	(11,483)	(12,556)
Remeasurement of defined benefit plans	(7,388)	(13,275)
Unrealized gain arising on revaluation of available-for-sale financial assets	55,714	32,500
Decrease in non-controlling interests	(194,242)	(145,682)
Balance at December 31	$ 1,414,827	$ 1,299,838

19. EMPLOYEE BENEFITS EXPENSE, DEPRECIATION, AND AMORTIZATION

	For the Year Ended December 31, 2017			
	Classified as Operating Costs	Classified as Operating Expenses	Classified as Non-operating Income and Losses	Total
Short-term employee benefits	$ 3,145,062	$ 4,977,258	$ -	$ 8,122,320
Post-employment benefits	$ 126,497	$ 269,334	$ -	$ 395,831
Depreciation	$ 5,419,706	$ 553,891	$ 7,430	$ 5,981,027
Amortization	$ 33,294	$ 56,034	$ 14,020	$ 103,348

	For the Year Ended December 31, 2016			
	Classified as Operating Costs	Classified as Operating Expenses	Classified as Non-operating Income and Losses	Total
Short-term employee benefits	$ 2,558,429	$ 4,192,715	$ -	$ 6,751,144
Post-employment benefits	$ 120,778	$ 246,759	$ -	$ 367,537
Depreciation	$ 5,245,890	$ 317,034	$ 7,936	$ 5,570,860
Amortization	$ 33,293	$ 54,483	$ 11,893	$ 99,669

In accordance with the Company Act and the Articles of Incorporation, it stipulates distribution of the compensation of employees and remuneration of directors at the rates no more than 1% and no less than 1%, respectively, of net profit before income tax, remuneration to directors and compensation of employees. The calculation for the rate mentioned above also include the Company's remuneration of supervisors before establishment of the Audit Committee. The Company estimates the compensation of employees and remuneration of directors for the years ended December 31, 2017 and 2016 at the rate of 1% of the base net profit.

	For the Year Ended December 31	
	2017	2016
Employees' compensation	$ 67,881	$ 34,400
Remuneration of directors and supervisors	$ 67,881	$ 34,400

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.

	For the 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 amounts of the compensation of employees and remuneration of directors and supervisors resolved by the Company's board of directors, 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 is available on the Market Observation Post System website of the Taiwan Stock Exchange.

20. SHARE-BASED PAYMENT ARRANGEMENTS

The Company's board of directors resolved to reserve 10% of the shares from the issuance of 400,000 thousand shares approved by the FSC on October 16, 2017 to be subscribed for by its employees. The number of shares subscribed for by the employees was affirmed on October 24, 2017. The fair value of such share options subscribed for by the Company's employees on the grant date was measured using the Black-Scholes Option Pricing Model and amounted to $239,200 thousand which was recorded as compensation costs with a corresponding increase in capital surplus.

a. As of December 31, 2017, the Company's Share-based payments agreements were as follows:

Agreement	Grant Date	Number of Shares Grant	Vesting Conditions
Cash capital increase reserved for employee preemption	2017.10.24	40,000 thousand shares	Vested immediately

b. The fair value of share options acquired by employees on grant day, October 24, 2017, was measured by using Black-Scholes Option Pricing Model. Relevant information is as follows:

Stock Price (NT$)	Exercise Price (NT$)	Expected Price Volatility	Expected Vesting Period	Expected Dividend Yield Rate	Risk-free Interest Rate	Fair Value Per Share (NT$)
$27.9	$22	38.94%	49 days	-	0.36%	$5.98

21. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Income tax recognized in profit or loss

The major components of income tax expense were as follows:

	For the Year Ended December 31	
	2017	2016
Current income tax	$ 1,254,457	$ 640,383
Adjustments for prior year's tax	6,289	5,379
Deferred income tax	13,833	(31,216)
Income tax expense recognized in profit or loss	$ 1,274,579	$ 614,546

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

	For the Year Ended December 31	
	2017	**2016**
Income tax expense from continuing operations at the statutory rate	$ 1,348,754	$ 750,443
Tax effect of adjustment item		
Permanent differences	(195,000)	(109,000)
Others	7,897	8,501
Additional income tax on unappropriated earnings	124,773	14,327
Current income tax credit	(21,967)	(15,888)
Tax-exempt income	(10,000)	(8,000)
Current income tax	1,254,457	640,383
Deferred income tax		
Temporary differences	13,833	(31,216)
Adjustment for prior years' tax	6,289	5,379
Income tax expense recognized in profit or loss	$ 1,274,579	$ 614,546

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.

In January 2018, it was announced that the Income Tax Law in the ROC was amended and, starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to 5%.

Since the statement of profit distribution for 2017 has not been approved in the shareholders' meeting, the potential effect on income tax for 10% legal reserve appropriated may not be decided.

b. Current tax assets and liabilities

	December 31	
	2017	**2016**
Current tax assets		
Tax refund receivables (recorded as "other receivables and notes receivable")	$ 63,774	$ 58,013
Current tax liabilities		
Income tax payables (recorded as "other payables")	$ 248,662	$ 35,788

c. Deferred tax assets

As of December 31, 2017 and 2016, deferred income tax assets of $1,351,087 thousand and $2,353,422 thousand, respectively, were mainly net operating loss carryforwards.

d. Operating loss carryforwards and tax exemptions

Information about the Group's operating loss carryforwards as of December 31, 2017 and tax exemptions was as follows:

As of December 31, 2017, WECA's operating loss carryforward was US$12,733 thousand, and will expire in 2025.

As of December 31, 2017, the Company's operating loss carryforwards comprised:

Operating Loss Carryforwards	Expiry Year
$ 1,081,000	2019
475,000	2022
$ 1,556,000	

As of December 31, 2017, NTC's profits attributable to the following expansion projects were exempted from income tax for a five-year period:

Expansion of Construction Project	Tax-exemption Period
Advanced integrated circuit design	2014-2018

e. Integrated income tax

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

	December 31	
	2017	2016
Balance of imputation credit account	$ 180,107	$ 53,036
Undistributed earnings for the years of 1998 and thereafter	$ 7,355,893	$ 2,952,901

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

	2017 (Expected)	2016
Creditable ratio for distribution of earnings	Note	9.54%

Note: Since the amended Income Tax Act announced in January 2018 abolished the imputation tax system, no creditable ratio for distribution of earnings in 2018 is expected.

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.

f. Tax return assessments

The Company's tax returns through 2015 have been assessed by the tax authorities.

22. EARNINGS PER SHARE

	For the Year Ended December 31					
	2017			2016		
	Amounts (Numerator) After Income Tax (Attributable to Owners of the Parent)	Shares (Denominator) (In Thousand)	Earnings Per Share (NT$) After Income Tax (Attributable to Owners of the Parent)	Amounts (Numerator) After Income Tax (Attributable to Owners of the Parent)	Shares (Denominator) (In Thousand)	Earnings Per Share (NT$) After Income Tax (Attributable to Owners of the Parent)
Basic earnings per share						
Net income attributed to common shareholders	$ 5,550,562	3,608,948	$ 1.54	$ 2,897,791	3,572,482	$ 0.81
Effect of dilutive potential common shares						
Employees' compensation	-	3,431		-	3,616	
Diluted earnings per share						
Net income attributed to common shareholders	$ 5,550,562	3,612,379	$ 1.54	$ 2,897,791	3,576,098	$ 0.81

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

	For the Year Ended December 31	
	2017	2016
Non-cash investing and financing activities		
Long-term borrowings, current portion	$ 3,323,520	$ 3,090,180
Exchange differences on translation of foreign financial statements	$ (144,421)	$ (65,338)
Unrealized gains on available-for-sale financial assets	$ 3,930,704	$ 2,613,066

24. OPERATING LEASE ARRANGEMENTS

The Group as Lessee

a. Lease arrangements

The Company and NTC leased land from Science Park Administration, and the lease term will expire in 2023 and 2027, 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, 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 2018 and 2023 which can be extended after the expiration of the lease periods.

As of December 31, 2017 and 2016, deposits paid under operating leases amounted to $114,121 thousand and $62,109 thousand, respectively (recorded as "other non-current assets").

b. Prepayments for lease obligations

	For the Year Ended December 31	
	2017	2016
Current (recorded as "other current assets")	$ 3,445	$ 4,112
Non-current (recorded as "other non-current assets")	37,510	39,892
	$ 40,955	$ 44,004

c. Lease expense

	2017	2016
Lease expenditure	$ 217,380	$ 214,363

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 December 31, 2017 and 2016, deposits received under operating leases amounted to $2,181 thousand and $1,911 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
Walton Advanced Engineering (Suzhou) Inc.	Related party in substance
Global Brands Manufacture (Dongguan) Ltd.	Related party in substance
Chin Cherng Construction Co., Ltd.	Related party in substance
HannStar Display Corporation	Related party in substance
Walsin Technology Corporation	Related party in substance
Harbinger III Venture Capital Corp.	Related party in substance

b. Operating activities

	For the Year Ended December 31	
	2017	2016
1) Operating revenue		
Related party in substance	$ 238,200	$ 314,131
2) Manufacturing expenses		
Related party in substance	$ 2,385,555	$ 2,516,392
3) General and administrative expenses		
Related party in substance	$ 10,538	$ 10,331
Investor that exercises significant influence over the Group	9,099	8,967
	$ 19,637	$ 19,298
4) Dividend income		
Investor that exercises significant influence over the Group		
Walsin Lihwa Corporation	$ 140,000	$ 42,160
Related party in substance		
HannStar Display Corporation	59,034	-
Walton Advanced Engineering Inc.	12,513	10,738
Others	27,595	16,729
	$ 239,142	$ 69,627
5) Other income		
Related party in substance	$ 2,609	$ 1,436

	December 31	
	2017	2016
6) Accounts receivable due from related parties		
Related party in substance	$ 33,546	$ 49,531
7) Accounts payable to related parties		
Related party in substance	$ 496,787	$ 472,489
8) Other current assets		
Investor that exercises significant influence over the Group	$ 1,172	$ 340
9) Other payables		
Related party in substance	$ 33,465	$ 32,820
Investor that exercises significant influence over the Group	1,464	6
	$ 34,929	$ 32,826

	December 31	
	2017	2016

10) Refundable deposits (recorded as "other non-current assets")

	2017	2016
Related party in substance	$ 1,722	$ 1,722
Investor that exercises significant influence over the Group	203	203
	$ 1,925	$ 1,925

11) Property, plant and equipment disposed

	For the Year Ended December 31			
	2017		2016	
	Price	Gain on Disposal	Price	Gain on Disposal
Related party in substance	$ 620	$ 114	$ -	$ -

The Group's transactions with the related party were conducted under normal terms.

c. Guarantee

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

d. Compensation of key management personnel

	For the Year Ended December 31	
	2017	2016
Short-term employment benefits	$ 342,424	$ 275,429
Post-employment benefits	10,752	8,969
Share-based payments	7,698	-
	$ 360,874	$ 284,398

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

Refer to Notes 6 and 13.

28. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

a. Amounts available under unused letters of credit as of December 31, 2017 were approximately US$36,768 thousand, JPY2,936,690 thousand and EUR1,596 thousand.

b. Signed construction contract

	Total Contract Price	Payment as of December 31, 2017
TASA Construction Corporation	$ 2,374,000	$ 1,637,590

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 stock and mutual funds).

- Forward exchange contracts and foreign exchange 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 December 31, 2017

	Carrying Amount	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	Fair Value Total
Financial assets measured at cost					
Domestic emerging securities					
Equity securities	$ 493	$ -	$ 347	$ -	$ 347

Fair value hierarchy as at December 31, 2016

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

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

Fair value hierarchy as at December 31, 2017

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial assets (not under hedge accounting)	$ -	$ 32,745	$ -	$ 32,745
Available-for-sale financial assets				
Domestic listed securities				
Equity securities	$ 6,571,543	$ -	$ -	$ 6,571,543
Overseas listed securities				
Equity securities	221,008	-	-	221,008
	$ 6,792,551	$ -	$ -	$ 6,792,551

Fair value hierarchy as at December 31, 2016

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
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

There were no transfers between the levels in 2017 and 2016.

b. Categories of financial instruments

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

	December 31			
	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Loans and receivables				
Cash and cash equivalents	$ 14,172,441	$ 14,172,441	$ 7,683,817	$ 7,683,817
Notes and accounts receivable (included related parties)	6,741,036	6,741,036	5,806,346	5,806,346
Other receivables	654,836	654,836	518,048	518,048
Refundable deposits (recorded in other non-current assets)	230,519	230,519	181,134	181,134
Financial assets at FVTPL	32,745	32,745	5,559	5,559
Available-for-sale financial assets (current and non-current)	6,792,551	6,792,551	4,633,806	4,633,806
Financial assets measured at cost	340,875	340,729	611,699	611,473
Financial liabilities				
Measured at amortized cost				
Short-term borrowings	553,539	553,539	-	-
Notes and accounts payable (included related parties)	4,917,732	4,917,732	4,682,209	4,682,209
Payable on equipment and other payables	7,251,370	7,251,370	6,612,967	6,612,967
Long-term borrowings (included current portion)	12,094,080	12,094,080	9,784,260	9,784,260
Long-term contract payable (recorded in other non-current liabilities)	10,551	10,551	22,868	22,868
Guarantee deposits (recorded in other non-current liabilities)	65,897	65,897	86,518	86,518
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 US dollars, there would be an increase in net income in the amounts of $26,514 thousand and $25,809 thousand for the years ended December 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:

	December 31	
	2017	**2016**
Cash flow interest rate risk		
Financial assets	$ 36,719	$ 29,165
Financial liabilities	12,094,080	9,784,260

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 years ended December 31, 2017 and 2016 would have increased by $120,574 thousand and $97,551 thousand, 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:

	December 31, 2017			
	Within 1 Year	**1-2 Years**	**Over 2 Years**	**Total**
Non-derivative financial liabilities				
Non-interest bearing	$ 12,169,102	$ 76,448	$ -	$ 12,245,550
Variable interest rate liabilities	3,323,520	4,563,520	4,207,040	12,094,080
Fixed interest rate liabilities	553,539	-	-	553,539
	$ 16,046,161	$ 4,639,968	$ 4,207,040	$ 24,893,169

	December 31, 2016			
	Within 1 Year	**1-2 Years**	**Over 2 Years**	**Total**
Non-derivative financial liabilities				
Non-interest bearing	$ 11,295,176	$ 97,952	$ 11,434	$ 11,404,562
Variable interest rate liabilities	3,090,180	2,723,520	3,970,560	9,784,260
	$ 14,385,356	$ 2,821,472	$ 3,981,994	$ 21,188,822

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:

	December 31					
	2017			2016		
	Foreign Currencies (In Thousand)	**Exchange Rate (Note 1)**	**New Taiwan Dollars (In Thousand)**	**Foreign Currencies (In Thousand)**	**Exchange Rate (Note 1)**	**New Taiwan Dollars (In Thousand)**
Financial assets						
Monetary items						
USD	$ 245,041	29.76	$ 7,292,424	$ 199,411	32.25	$ 6,431,008
USD	22,714	112.64 (Note 2)	675,963	15,393	117.02 (Note 2)	496,419
EUR	1,686	35.57	59,968	2,710	33.90	91,878
JPY	2,536,125	0.2642	670,044	2,555,860	0.2756	704,395
RMB	94,642	4.565	432,041	48,389	4.617	223,412
ILS	11,707	8.5791	100,433	14,568	8.3882	122,202
Non-monetary items						
USD	6,266	29.76	186,483	13,759	32.25	443,734
Financial liabilities						
Monetary items						
USD	150,588	29.76	4,481,508	118,730	32.25	3,829,048
USD	15,099	112.64 (Note 2)	449,348	9,587	117.02 (Note 2)	309,171
EUR	18,375	35.57	653,583	3,395	33.90	115,082
JPY	3,263,776	0.2642	862,290	2,712,845	0.2756	747,660
ILS	14,522	8.5791	124,582	14,002	8.3882	117,453

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

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

For the years ended December 31, 2017 and 2016, realized and unrealized net foreign exchange loss were \$269,799 thousand and \$94,713 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" 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	
	For the Year Ended December 31		For the Year Ended December 31	
	2017	2016	2017	2016
DRAM IC product	$ 20,343,514	$ 21,430,695	$ 3,867,666	$ 4,345,993
Flash Memory product	18,154,163	12,461,559	4,219,201	1,248,119
Logic IC product	9,092,740	8,198,689	1,531,551	1,316,862
Total of segment revenue	47,590,417	42,090,943	9,618,418	6,910,974
Other revenue	1,375	766	1,375	766
Operating revenue	$ 47,591,792	$ 42,091,709		
Unallocated expenditure				
Administrative and supporting expense			(1,566,084)	(1,308,571)
Sales and other common expenses			(1,397,941)	(1,890,213)
Income from operations			6,655,768	3,712,956
Non-operating income and expenses				
Interest income			35,349	175,417
Dividend income			340,284	126,790
Other income			58,660	38,495
Gains (losses) on disposals of property, plant and equipment			1,267	(4,520)
Gains (losses) on disposal of investments			25,489	(1,811)
Gains on financial instruments at fair value through profit or loss			215,100	55,725
Share of profit of associates accounted for using equity method			192,125	12,384
Interest expenses			(78,625)	(187,010)
Other expenses			(68,089)	(33,008)
Foreign exchange losses			(269,799)	(94,713)
Impairment loss on financial assets			(10,000)	(30,000)
Impairment loss on property, plant and equipment			-	(16,085)
Profit before income tax			$ 7,097,529	$ 3,754,620

c. Geographical information

The Group's revenue from continuing operations from external customers by location of operations and information about its non-current assets (non-current assets exclude financial instruments, deferred income tax assets and post-employment benefit assets) by location of assets are detailed below.

	Revenue from External Customers For the Year Ended December 31		Non-current Assets December 31	
	2017	**2016**	**2017**	**2016**
Asia	$ 43,502,371	$ 38,232,002	$ 44,024,957	$ 34,574,410
Europe	2,264,392	2,528,122	-	-
United States	1,670,096	1,232,337	207,706	207,697
Others	154,933	99,248	-	-
	$ 47,591,792	$ 42,091,709	$ 44,232,663	$ 34,782,107

d. Major customer information

No individual customer exceeded 10% of the Group's net sales for the years ended December 31, 2017 and 2016.