Winbond Electronics Corporation

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

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Winbond Electronics Corporation

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

We conducted our audit 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 Financial Statements section of our report. We are independent of the Company 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 most significance in our audit of the financial statements for the year ended December 31, 2017. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<u>Impairment of Accounts Receivable</u>

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 financial statements. Refer to Note 9 of the 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 Company'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 financial statements. Refer to Note 10 of the financial statements for disclosures of the provision amounts of inventory devaluation, obsolescence and scraps.

Our audit procedures in response to the impairment of inventory 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.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company 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 Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Company'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 Company'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 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 Company to cease to continue as a going concern.

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

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the 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 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 financial statements are intended only to present the 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 financial statements are those generally applied in the Republic of China.

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

WINBOND ELECTRONICS CORPORATION

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)	$ 11,658,134	14	$ 4,874,171	8
Current financial assets at fair value through profit or loss (Notes 4 and 7)	31,035	-	5,559	-
Current available-for-sale financial assets (Notes 4 and 8)	6,281,754	7	4,275,910	7
Notes and accounts receivable, net (Notes 4 and 9)	3,830,179	5	3,320,240	5
Accounts receivable due from related parties, net (Note 25)	1,753,601	2	1,230,340	2
Other receivables (Note 6)	247,805	-	211,734	-
Inventories (Notes 4 and 10)	6,497,262	8	6,365,674	10
Other current assets	746,871	1	986,006	1
Total current assets	31,046,641	37	21,269,634	33
NON-CURRENT ASSETS				
Non-current financial assets measured at cost (Notes 4 and 11)	27,649	-	37,649	-
Investments accounted for using equity method (Notes 4 and 12)	9,003,400	11	7,201,908	11
Property, plant and equipment (Notes 4 and 13)	42,969,011	51	33,607,842	52
Intangible assets (Notes 4 and 14)	115,325	-	69,438	-
Deferred income tax assets (Notes 4 and 20)	1,087,000	1	2,066,000	3
Other non-current assets (Note 6)	160,974	-	146,579	1
Total non-current assets	53,363,359	63	43,129,416	67
TOTAL	$ 84,410,000	100	$ 64,399,050	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Note 15)	$ 553,539	1	$ -	-
Current financial liabilities at fair value through profit or loss (Notes 4 and 7)	-	-	46,581	-
Notes payable	233,687	-	301,550	-
Accounts payable	3,271,986	4	3,023,405	5
Accounts payable to related parties (Note 25)	496,787	1	472,489	1
Payables on machinery and equipment	3,683,587	4	3,761,758	6
Other payables	2,712,160	3	2,018,276	3
Long-term borrowings, current portion (Note 15)	3,323,520	4	3,090,180	5
Other current liabilities	84,791	-	46,177	-
Total current liabilities	14,360,057	17	12,760,416	20
NON-CURRENT LIABILITIES				
Long-term borrowings (Note 15)	8,728,773	10	6,638,273	10
Net defined benefit liabilities, non-current (Notes 4 and 16)	652,453	1	572,610	1
Other non-current liabilities	456,553	1	506,790	1
Total non-current liabilities	9,837,779	12	7,717,673	12
Total liabilities	24,197,836	29	20,478,089	32
EQUITY (Note 17)				
Share capital	39,800,002	47	35,800,002	55
Capital surplus	7,540,440	9	2,471,044	4
Retained earnings				
Legal reserve	498,385	-	208,606	-
Special reserve	31,429	-	1,395,063	2
Unappropriated earnings	7,355,893	9	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	60,212,164	71	43,920,961	68
TOTAL	$ 84,410,000	100	$ 64,399,050	100

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

WINBOND ELECTRONICS CORPORATION

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	$ 38,102,813	100	$ 33,534,343	100
OPERATING COSTS (Note 10)	25,944,812	68	25,274,520	75
GROSS PROFIT	12,158,001	32	8,259,823	25
OPERATING EXPENSES				
Selling expenses	927,513	2	808,914	3
General and administrative expenses	987,205	3	788,131	2
Research and development expenses	4,532,594	12	3,692,984	11
Total operating expenses	6,447,312	17	5,290,029	16
INCOME FROM OPERATIONS	5,710,689	15	2,969,794	9
NON-OPERATING INCOME AND EXPENSES				
Interest income	16,325	-	155,112	1
Dividend income	225,684	1	63,800	-
Other income	73,762	-	20,094	-
Gains (losses) on disposals of property, plant and equipment	644	-	(4,327)	-
Gains (losses) on disposals of investments	22,800	-	(10,472)	-
Gains on financial instruments at fair value through profit or loss	209,770	-	60,455	-
Share of profit of subsidiaries and associates accounted for using equity method (Note 12)	766,998	2	463,221	1
Interest expenses	(78,625)	-	(187,009)	(1)
Other expenses	(46,770)	-	(13,188)	-
Foreign exchange losses	(238,909)	(1)	(94,112)	-
Impairment loss on financial assets (Note 11)	(10,000)	-	(36,053)	-
Impairment loss on property, plant and equipment (Note 13)	-	-	(16,085)	-
Total non-operating income and expenses	941,679	2	401,436	1
PROFIT BEFORE INCOME TAX	6,652,368	17	3,371,230	10
INCOME TAX EXPENSE (Notes 4 and 20)	1,101,806	3	473,439	1
NET PROFIT	5,550,562	14	2,897,791	9

(Continued)

WINBOND ELECTRONICS CORPORATION

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 16)	$ (69,455)	-	$ (46,647)	-
Share of other comprehensive loss of subsidiaries accounted for using equity method	(3,970)	-	(22,634)	-
Components of other comprehensive income that will be reclassified to profit or loss:				
Exchange differences on translation of foreign financial statements	223	-	(93)	-
Unrealized gains on available-for-sale financial assets	2,266,196	6	1,642,970	5
Share of other comprehensive income of subsidiaries and associates accounted for using equity method	1,519,864	4	904,851	2
Other comprehensive income	3,712,858	10	2,478,447	7
TOTAL COMPREHENSIVE INCOME	$ 9,263,420	24	$ 5,376,238	16
EARNINGS PER SHARE (Note 21)				
Basic	$ 1.54		$ 0.81	
Diluted	$ 1.54		$ 0.81	

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

WINBOND ELECTRONICS CORPORATION

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

			Retained Earnings			Other Equity			
	Share Capital	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translation of Financial Statements	Unrealized Gains (Losses) on Available-for-sale Financial Assets	Treasury Shares	Total
BALANCE, JANUARY 1, 2016	$ 35,800,002	$ 2,470,292	$ -	$ -	$ 2,086,060	$ 88,771	$ (1,436,767)	$ (106,387)	$ 38,901,971
Appropriation of 2015 earnings									
Legal reserve	-	-	208,606	-	(208,606)	-	-	-	-
Special reserve	-	-	-	1,395,063	(1,395,063)	-	-	-	-
Cash dividends	-	-	-	-	(358,000)	-	-	-	(358,000)
Total appropriations	-	-	208,606	1,395,063	(1,961,669)	-	-	-	(358,000)
Net profit for 2016	-	-	-	-	2,897,791	-	-	-	2,897,791
Other comprehensive income (loss) for 2016	-	-	-	-	(69,281)	(65,338)	2,613,066	-	2,478,447
Total comprehensive income (loss) for 2016	-	-	-	-	2,828,510	(65,338)	2,613,066	-	5,376,238
Adjustments of capital surplus for the Company's cash dividends received by subsidiaries	-	752	-	-	-	-	-	-	752
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
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)
Total appropriations	-	-	289,779	(1,363,634)	(1,074,145)	-	-	-	(2,148,000)
Net profit for 2017	-	-	-	-	5,550,562	-	-	-	5,550,562
Other comprehensive income (loss) for 2017	-	-	-	-	(73,425)	(144,421)	3,930,704	-	3,712,858
Total comprehensive income (loss) for 2017	-	-	-	-	5,477,137	(144,421)	3,930,704	-	9,263,420
Issue of shares (Note 17)	4,000,000	4,787,673	-	-	-	-	-	-	8,787,673
Share-based payments (Note 19)	-	239,200	-	-	-	-	-	-	239,200
Adjustments of capital surplus for the Company's cash dividends received by subsidiaries	-	4,511	-	-	-	-	-	-	4,511
Disposal of the Company's shares by subsidiaries recognized as treasury share transactions (Note 17)	-	38,012	-	-	-	-	-	106,387	144,399
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

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

WINBOND ELECTRONICS CORPORATION

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	$ 6,652,368	$ 3,371,230
Adjustments for:		
Depreciation expense	5,796,410	5,393,102
Amortization expense	24,420	18,827
Provision for allowance for doubtful accounts	16,000	10,000
Recognition (reversal) of provisions for declines in market value, obsolescence and scraps of inventories	92,399	(76,451)
Net (gain) loss on financial assets and liabilities at fair value through profit or loss	(72,057)	19,974
Interest expense	78,625	187,009
Interest income	(16,325)	(155,112)
Dividend income	(225,684)	(63,800)
Share-based payments	239,200	-
Share of profit of subsidiaries and associates accounted for using equity method	(766,998)	(463,221)
(Gain) loss on disposal of property, plant and equipment	(644)	4,327
(Gain) loss on disposal of investments	(22,800)	10,472
Impairment loss on financial assets	10,000	36,053
Impairment loss on non-financial assets	-	16,085
Gain on foreign currency exchange of held-to-maturity financial assets	-	(1,200)
Unrealized profit on the transactions with subsidiaries	23,871	6,268
Changes in operating assets and liabilities		
Increase in notes and accounts receivable	(525,939)	(528,130)
(Increase) decrease in accounts receivable due from related parties	(523,261)	94,830
Increase in other receivables	(44,386)	(46,849)
(Increase) decrease in inventories	(223,987)	1,225,569
Decrease in other current assets	239,135	30,810
Increase in other non-current assets	(47,195)	(275)
Decrease in notes payable	(67,863)	(217,950)
Increase in accounts payable	248,581	349,781
Increase (decrease) in accounts payable to related parties	24,298	(234,575)
Increase in other payables	575,872	253,245
Increase (decrease) in other current liabilities	38,614	(33,980)
Increase in other non-current liabilities	14,341	58,928
Cash generated from operations	11,536,995	9,264,967
Interest received	15,777	19,285
Dividends received	529,572	303,706
Interest paid	(210,451)	(238,139)
Income tax returned (paid)	6,701	(12,262)
Net cash generated from operating activities	11,878,594	9,337,557

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WINBOND ELECTRONICS CORPORATION

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

	2017	2016
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of available-for-sale financial assets	$ -	$ (319,655)
Proceeds from disposal of available-for-sale financial assets	276,220	110,162
Proceeds from capital reduction of available-for-sale financial assets	6,067	7,913
Proceeds from repayments of held-to-maturity financial assets	-	101,100
Proceeds from capital reduction of financial assets measured at cost	-	12,512
Acquisition of investments accounted for using equity method	-	(50,000)
Proceeds from capital reduction of investments accounted for using equity method	282,249	-
Acquisitions of property, plant and equipment	(15,107,937)	(4,796,651)
Proceeds from disposal of property, plant and equipment	2,025	11,132
Acquisition of intangible assets	(56,287)	-
Decrease in finance lease receivables	-	574,353
Net cash used in investing activities	(14,597,663)	(4,349,134)
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	(2,148,000)	(358,000)
Proceeds from issuing shares	8,800,000	-
Other financing activities	(12,327)	(38,600)
Net cash generated from (used in) financing activities	9,503,032	(3,748,867)
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,783,963	1,239,556
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,874,171	3,634,615
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 11,658,134	$ 4,874,171

The accompanying notes are an integral part of the 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.

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

2. APPROVAL OF FINANCIAL STATEMENTS

The 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's accounting policies:

<u>Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers</u>

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 Company 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 Company has significant transactions. If the transactions or balance with a specific related party is 10% or more of the Company'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 25.

Except for the above impacts, as of the date the financial statements were approved for issue, the Company 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 Company'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

Classification, measurement, and impairment of financial assets

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 Company'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 Company 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 Company 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 Company 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 Company 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 Company 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 Company 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 Company 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	$ 31,035	$ -	$ 31,035
Current available-for-sale financial assets	6,281,754	(6,281,754)	-
Current financial assets at fair value through other comprehensive income	-	6,281,754	6,281,754
Non-current financial assets at fair value through other comprehensive income	-	46,558	46,558
Non-current financial assets measured at cost	27,649	(27,649)	-
Investments accounted for using equity method	9,003,400	208,681	9,212,081
Total effect on assets	$ 15,343,838	$ 227,590	$ 15,571,428
Other non-current liabilities	$ 456,553	$ (202,340)	$ 254,213
Total effect on liabilities	$ 456,553	$ (202,340)	$ 254,213
Retained earnings	$ 7,885,707	$ 471,170	$ 8,356,877
Unrealized gains (losses) on available-for-sale financial assets	5,107,003	(41,240)	5,065,763
Total effect on equities	$ 12,992,710	$ 429,930	$ 13,422,640

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 Company 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 Company is continuously assessing the possible impact that the application of other standards and interpretations will have on the Company’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 Company 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 Company 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 Company 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 Company as lessor.

When IFRS 16 becomes effective, the Company 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 Company should assume that the taxation authority will have full knowledge of all related information when making related examinations. If the Company concludes that it is probable that the taxation authority will accept an uncertain tax treatments, the Company 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 Company 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 Company has to reassess its judgments and estimates if facts and circumstances change.

On initial application, the Company 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.

2) 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 Company is continuously assessing the possible impact that the application of other standards and interpretations will have on the Company'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 financial statements have been prepared in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis of Preparation

The 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.

The Company used equity method to account for its investment in subsidiaries and associates for the stand-alone financial statements. The amounts of the net profit, other comprehensive income and total equity in stand-alone financial statements are same with the amounts attributable to the owner of the Company in its consolidated financial statements since there is no difference in accounting treatment between stand-alone basis and consolidated basis.

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 Company 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

In preparing the financial statements, transactions in currencies other than the entity's functional currency 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 financial statements, the assets and liabilities of the Company's foreign operations are translated into New Taiwan dollars using exchange rate prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, and exchange difference arising are recognized in other comprehensive income.

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 Company 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 Company 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 Company'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 Company'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 Company 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 Company 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 Company 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 liquid 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 Accounted for Using Equity Method

Investment accounted for using equity method include investments in subsidiaries and associates.

a. Investment in subsidiaries

Subsidiaries are the entities controlled by the Company.

Under the equity method, the investment in a subsidiary is initially recognized at cost and the carrying amount is increased or decreased to recognize the Company's share of the profit or loss and other comprehensive income of the subsidiary after the date of acquisition. Besides, the Company also recognizes the Company's share of the change in other equity of the subsidiary.

Changes in the Company's ownership interests in subsidiaries that do not result in the Company's loss of control over the subsidiaries are accounted for as equity transactions. Any difference between the carrying amount of the investment and the fair value of the consideration paid or received is recognized directly in equity.

When the Company's share of losses of a subsidiary equals or exceeds its interest in that subsidiary (which includes any carrying amount of the investment in subsidiary accounted for by the equity method and long-term interests that, in substance, form part of the Company's net investment in the subsidiary), the Company continues recognizing its share of further losses.

Profits and losses from downstream transactions with a subsidiary are eliminated in full. Profits and losses from upstream transactions with a subsidiary and sidestream transactions between subsidiaries are recognized in the Company's financial statements only to the extent of interests in the subsidiary that are not related to the Company.

b. Investment in associates

An associate is an entity over which the Company 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 Company 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 Company's share of the profit or loss and other comprehensive income of the associate. The Company also recognizes the changes in the Company's share of equity of associates.

Any excess of the cost of acquisition over the Company'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 Company'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 Company 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 Company's proportionate interest in the associate. The Company records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus. If the Company'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 Company'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 substances, form part of the Company's net investment in the associate), the Company discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Company 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 Company 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 Company 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 Company transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Company's financial statements only to the extent of interests in the associate that are not related to the Company.

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 Company's property, plant and equipment were depreciated on a 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

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 Company 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 Company 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 Company accrues reserve for product 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 a liability 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 Company as lessor recognizes amounts due from lessees as receivables at the amount of the Company'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 Company's net investment outstanding in respect of the leases.

Under operating lease, the Company as lessor recognizes rental income from operating leases 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.

Other than stated 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 Company'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 Company'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 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 Company 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 Company'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 Company'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	$ 9,298,056	$ 4,463,521
Repurchase agreements collateralized by bonds	2,360,078	410,650
	$ 11,658,134	$ 4,874,171

a. The Company has time deposits pledged to secure land and building leases at a science park, customs tariff obligations and export bill 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	$ 123,730	$ 73,255

b. The Company 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	$ -	$ 3,733

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31 2017	December 31 2016
Financial assets at FVTPL - current		
Derivative financial assets (not under hedge accounting)		
Foreign exchange swap contracts	$ 3,298	$ 5,559
Forward exchange contracts	27,737	-
	$ 31,035	$ 5,559
Financial liabilities at FVTPL - current		
Derivative financial liabilities (not under hedge accounting)		
Forward exchange contracts	$ -	$ 46,581

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	USD103,550/NTD3,100,484
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	USD96,000/NTD3,049,301
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 Company 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	December 31 2016
Listed stocks		
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
Current available-for-sale financial assets	$ 6,281,754	$ 4,275,910

9. NOTES AND ACCOUNTS RECEIVABLE

	December 31	
	2017	2016
Notes receivable	$ 54,203	$ -
Accounts receivable	3,872,976	3,401,240
Less: Allowance for doubtful accounts	(97,000)	(81,000)
	$ 3,830,179	$ 3,320,240

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	$ 3,635,134	$ 3,194,389
Overdue 30 days or less	209,503	182,636
Overdue 31-60 days	7,807	5,371
Overdue 61 days and longer	20,532	18,844
	$ 3,872,976	$ 3,401,240

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	$ 81,000	$ 71,000
Add: Provisions recognized on accounts receivable	16,000	10,000
Balance at December 31	$ 97,000	$ 81,000

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

10. INVENTORIES

	December 31	
	2017	2016
Finished goods	$ 1,286,036	$ 1,337,539
Work-in-process	4,683,003	4,576,960
Raw materials and supplies	528,223	451,175
	$ 6,497,262	$ 6,365,674

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 $92,399 thousand and reversals of inventory write-downs of $76,451 thousand, respectively. A $295,062 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**
Harbinger III Venture Capital Corp.	$ 14,396	$ 14,396
Smart Catch International Co., Ltd.	-	10,000
Others	13,253	13,253
Non-current financial assets measured at cost	$ 27,649	$ 37,649

The Company concludes that the fair value of the above unlisted equity investments held by the Company 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 thousand and $30,000 thousand, which was recorded as an impairment loss on financial assets for the years ended December 31, 2017 and 2016, respectively.

12. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31	
	2017	**2016**
Investments in subsidiaries	$ 4,572,415	$ 4,547,431
Investments in associates	4,430,985	2,654,477
	$ 9,003,400	$ 7,201,908

a. Investments in subsidiaries

	December 31			
	2017		**2016**	
Name of Subsidiaries	**Carrying Value**	**Ownership Percentage**	**Carrying Value**	**Ownership Percentage**
Listed companies				
Nuvoton Technology Corporation	$ 2,210,345	61	$ 2,039,669	61
Unlisted companies				
Winbond Int'l Corporation	1,534,361	100	1,871,256	100
Landmark Group Holdings Ltd.	307,243	100	274,718	100
Pine Capital Investment Limited	276,819	100	279,000	100
Newfound Asian Corp.	147,128	100	-	100
Winbond Technology Ltd.	48,202	100	37,767	100
Techdesign Corporation	30,439	100	38,953	100
Winbond Electronics (H.K.) Limited	17,878	100	6,068	100
Mobile Magic Design Corporation	-	100	-	100
	$ 4,572,415		$ 4,547,431	

1) The fair value of investment in subsidiaries for which there are published price quotations, based on closing price of those investments at the balance sheet date, are summarized as follows:

Name of Subsidiary	December 31 2017	December 31 2016
Nuvoton Technology Corporation	$ 8,103,686	$ 4,900,197

2) In May 2016, the Company purchased 100% of the shares of Techdesign Corporation from Nuvoton Technology Corporation.

3) In September 2017, the board of directors of Winbond Int'l Corporation resolved capital reductions of the repayment of shares in the amount of $282,249 thousand.

4) In 2017 and 2016, the Company recognized shares of subsidiaries' profit in the amounts of $574,873 thousand and $450,837 thousand, respectively.

b. Investments in associates

	December 31 2017	December 31 2016
1) Associates that are not individually material	$ 4,430,985	$ 2,654,477

2) Aggregate information of associates that are not individually material

	For the Year Ended December 31 2017	For the Year Ended December 31 2016
The Company'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

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 subsidiaries' and associates' financial statements audited by independent auditors.

13. PROPERTY, PLANT AND EQUIPMENT

	December 31 2017	December 31 2016
Land	$ 1,544,450	$ 1,544,450
Buildings	10,038,588	7,054,308
Machinery and equipment	29,005,891	18,206,326
Other equipment	996,420	401,479
Construction in progress and prepayments on purchase of equipment	1,383,662	6,401,279
	$ 42,969,011	$ 33,607,842

	Land	Buildings	Machinery and Equipment	Other Equipment	Construction in Progress and Prepayments on Purchase of Equipment	Total
Cost						
Balance at January 1, 2017	$ 1,544,450	$ 17,859,028	$ 81,693,742	$ 3,025,521	$ 6,401,279	$ 110,524,020
Additions	-	633,811	9,327,893	1,489,741	3,712,434	15,163,879
Disposals	-	(400)	(543,097)	(10,994)	-	(554,491)
Reclassified	-	3,409,063	6,093,558	(772,570)	(8,730,051)	-
Balance at December 31, 2017	$ 1,544,450	$ 21,901,502	$ 96,572,096	$ 3,731,698	$ 1,383,662	$ 125,133,408
Accumulated depreciation and impairment						
Balance at January 1, 2017	$ -	$ 10,804,720	$ 63,487,416	$ 2,624,042	$ -	$ 76,916,178
Depreciation expense	-	1,058,215	4,616,370	121,825	-	5,796,410
Disposals	-	(21)	(537,581)	(10,589)	-	(548,191)
Balance at December 31, 2017	$ -	$ 11,862,914	$ 67,566,205	$ 2,735,278	$ -	$ 82,164,397
Cost						
Balance at January 1, 2016	$ 1,544,450	$ 17,743,372	$ 80,138,341	$ 2,814,896	$ 791,811	$ 103,032,870
Additions	-	119,649	1,333,014	215,915	6,172,256	7,840,834
Disposals	-	(225,649)	(118,285)	(5,750)	-	(349,684)
Reclassified	-	221,656	340,672	460	(562,788)	-
Balance at December 31, 2016	$ 1,544,450	$ 17,859,028	$ 81,693,742	$ 3,025,521	$ 6,401,279	$ 110,524,020
Accumulated depreciation and impairment						
Balance at January 1, 2016	$ -	$ 10,031,232	$ 59,272,898	$ 2,533,567	$ -	$ 71,837,697
Depreciation expense	-	994,147	4,302,955	96,000	-	5,393,102
Disposals	-	(220,659)	(104,522)	(5,525)	-	(330,706)
Impairment loss recognized in profit or loss	-	-	16,085	-	-	16,085
Balance at December 31, 2016	$ -	$ 10,804,720	$ 63,487,416	$ 2,624,042	$ -	$ 76,916,178

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 borrowing. The Company 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 rate	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. INTANGIBLE ASSET

	December 31	
	2017	2016
Deferred technical assets, net	$ 115,325	$ 69,438

	Deferred Technical Assets
Cost	
Balance at January 1, 2017	$ 17,787,924
Addition	56,287
Balance at December 31, 2017	$ 17,844,211
Accumulated amortization and impairment	
Balance at January 1, 2017	$ 17,718,486
Amortization expense	10,400
Balance at December 31, 2017	$ 17,728,886
Cost	
Balance at January 1, 2016	$ 17,787,924
Balance at December 31, 2016	$ 17,787,924
Accumulated amortization and impairment	
Balance at January 1, 2016	$ 17,711,553
Amortization expense	6,933
Balance at December 31, 2016	$ 17,718,486

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.

15. BORROWINGS

a. Short-term borrowings

	December 31			
	2017		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.

16. RETIREMENT BENEFIT PLANS

a. Defined contribution plan

The Company 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.

b. Defined benefit plan

The defined benefit plan adopted by the Company 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 contribute amounts equal to 2% 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 Company 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 Company 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"); the Company has no right to influence the investment policy and strategy.

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

	December 31	
	2017	**2016**
Present value of the defined benefit obligation	$ 1,148,246	$ 1,067,856
Fair value of the plan assets	(495,793)	(495,246)
Net defined benefit liabilities, non-current	$ 652,453	$ 572,610

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	$ 1,067,856	$ (495,246)	$ 572,610
Service cost			
Current service cost	17,211	-	17,211
Net interest expense (income)	15,610	(7,132)	8,478
Recognized in profit or loss	32,821	(7,132)	25,689
Remeasurement			
Actuarial loss - realized rate of return less than the discounted rate	-	2,864	2,864
Actuarial loss - experience adjustments	66,591	-	66,591
Recognized in other comprehensive income	66,591	2,864	69,455
Contributions from the employer	-	(15,301)	(15,301)
Benefits paid	(19,022)	19,022	-
Balance at December 31, 2017	$ 1,148,246	$ (495,793)	$ 652,453

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Assets)
Balance at January 1, 2016	$ 1,013,847	$ (489,800)	$ 524,047
Service cost			
Current service cost	17,226	-	17,226
Net interest expense (income)	17,614	(8,501)	9,113
Recognized in profit or loss	34,840	(8,501)	26,339
Remeasurement			
Actuarial loss - realized rate of return less than the discounted rate	-	5,086	5,086
Actuarial loss - changes in financial assumptions	24,171	-	24,171
Actuarial loss - experience adjustments	17,390	-	17,390
Recognized in other comprehensive income	41,561	5,086	46,647
Contributions from the employer	-	(14,504)	(14,504)
Benefits paid	(12,473)	12,473	-
Account paid	(9,919)	-	(9,919)
Balance at December 31, 2016	$ 1,067,856	$ (495,246)	$ 572,610

(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	$ 13,768	$ 14,363
Selling expenses	1,843	1,973
General and administrative expenses	2,692	2,779
Research and development expenses	7,386	7,224
	$ 25,689	$ 26,339

Through the defined benefit plans under the Labor Standards Law, the Company 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 rate	1.50%	1.50%
Expected rate of salary increase	3.00%	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 rate		
0.5% increase	$ (48,780)	$ (47,645)
0.5% decrease	$ 52,246	$ 51,145
Expected rate of salary increase		
0.5% increase	$ 51,230	$ 50,149
0.5% decrease	$ (48,343)	$ (47,218)

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 change 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	$ 15,750	$ 14,939
The average duration of defined benefit obligation	8.80 years	9.30 years

17. 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 13, 2017 and June 16, 2016; 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, no more than 1% shall be allocated as remuneration of directors 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 18 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 amounts 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	223	(93)
Share of exchange difference of subsidiaries and associates accounted for using the equity method	(144,644)	(65,245)
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 Company'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	2,266,196	1,642,970
Share of unrealized gain on revaluation of available-for-sale financial assets of subsidiaries and associates accounted for using equity method	1,664,508	970,096
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, 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

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.

18. 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				
Salary	$ 2,287,645	$ 2,078,345	$ -	$ 4,365,990
Insurance	$ 132,340	$ 96,208	$ -	$ 228,548
Post-employment benefits				
Pension	$ 94,376	$ 66,743	$ -	$ 161,119
Depreciation	$ 5,323,899	$ 472,511	$ -	$ 5,796,410
Amortization	$ -	$ 10,400	$ 14,020	$ 24,420

	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				
Salary	$ 1,743,341	$ 1,511,284	$ -	$ 3,254,625
Insurance	$ 118,544	$ 80,620	$ -	$ 199,164
Post-employment benefits				
Pension	$ 87,673	$ 58,684	$ -	$ 146,357
Depreciation	$ 5,147,057	$ 246,045	$ -	$ 5,393,102
Amortization	$ -	$ 6,933	$ 11,894	$ 18,827

There were 2,570 and 2,439 employees in the Company as of December 31, 2017 and 2016, respectively.

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 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 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.

19. 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

20. 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 expense		
In respect of the current year	$ 966,000	$ 493,000
Additional income tax expense on unappropriated earnings	122,806	12,439
Deferred income tax		
In respect of the current year	13,000	(32,000)
Income tax expense recognized in profit or loss	$ 1,101,806	$ 473,439

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	$ 1,131,000	$ 573,000
Tax effect of adjustment items		
Permanent difference	(165,000)	(80,000)
Current income tax expense	966,000	493,000
Temporary difference	13,000	(32,000)
Additional income tax expense on unappropriated earnings	122,806	12,439
Income tax expense recognized in profit or loss	$ 1,101,806	$ 473,439

The applicable tax rate used by the Company is 17%.

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%.

b. Current tax assets and liabilities

	December 31	
	2017	2016
Current income tax assets		
Tax refund receivable (recorded as “other receivables”)	$ 5,675	$ 19,457
Current income tax liabilities		
Income tax payable (recorded as “other payables”)	$ 128,164	$ 12,439

c. Deferred tax assets

As of December 31, 2017 and 2016, deferred tax assets of $1,087,000 thousand and $2,066,000 thousand, respectively, were mainly net operating loss carryforwards.

d. Operating loss carryforwards

Operating loss carryforwards as of December 31, 2017 comprised:

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

e. Integrated income tax

The information on the 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 tax returns through 2015 have been assessed by the tax authorities.

21. EARNINGS PER SHARE

	For the Year Ended December 31					
	2017			2016		
	Amounts (Numerator) After Income Tax	Shares (Denominator) (In Thousand)	Earnings Per Share (NT$) After Income Tax	Amounts (Numerator) After Income Tax	Shares (Denominator) (In Thousand)	Earnings Per Share (NT$) After Income Tax
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.

22. 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

23. OPERATING LEASE ARRANGEMENTS

The Company as Lessee

a. Lease arrangements

The Company leased land from Science Park Administration until 2023, and the lease term can extended after the expiration of the lease period.

The Company leased some of the offices, and the lease terms will expire between 2018 and 2022 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 $66,345 thousand and $15,785 thousand, respectively (recorded as “other non-current assets”).

b. Lease expense

	For the Year Ended December 31	
	2017	**2016**
Lease expenditure	$ 83,570	$ 86,701

24. CAPITAL MANAGEMENT

The Company’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.

25. RELATED PARTY TRANSACTIONS

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

Related Party	Relationship with the Company
Walsin Lihwa Corporation	Investor that exercises significant influence over the Company
Winbond Electronics (H.K.) Limited	Subsidiary
Mobile Magic Design Corporation	Subsidiary
Winbond Electronics (Suzhou) Limited	Subsidiary
Winbond Electronics Corporation America	Subsidiary
Winbond Electronics Corporation Japan	Subsidiary
Winbond Technology LTD.	Subsidiary
Nuvoton Technology Corporation	Subsidiary
Techdesign Corporation	Subsidiary
Walton Advanced Engineering Inc.	Related party in substance
Walton Advanced Engineering (Suzhou) Inc.	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		
Subsidiaries		
Winbond Electronics (H.K.) Limited	$ 7,498,035	$ 6,098,488
Winbond Electronics Corporation Japan	4,624,782	3,627,779
Others	2,983,697	2,612,773
	$ 15,106,514	$ 12,339,040
2) Manufacturing expenses		
Related party in substance	$ 2,385,555	$ 2,516,392
3) Selling expenses		
Subsidiaries		
Winbond Electronics Corporation America	$ 173,637	$ 157,613
Others	4,291	4,859
	$ 177,928	$ 162,472
4) General and administrative expenses		
Investor that exercises significant influence over the Company	$ 9,099	$ 8,967
Subsidiaries	459	-
	$ 9,558	$ 8,967

	For the Year Ended December 31	
	2017	2016
5) Research and development expenses		
Subsidiaries	$ 978,695	$ 926,205
6) Dividend income		
Investor that exercises significant influence over the Company		
Walsin Lihwa Corporation	$ 140,000	$ 42,160
Related party in substance		
HannStar Display Corporation	59,033	-
Walton Advanced Engineering Inc.	12,513	10,738
Others	14,138	8,654
	$ 225,684	$ 61,552
7) Other income		
Subsidiaries	$ 29,977	$ 2,609
Related party in substance	2,431	1,323
	$ 32,408	$ 3,932

	December 31	
	2017	2016
8) Accounts receivable due from related parties		
Subsidiaries		
Winbond Electronics (H.K.) Limited	$ 770,332	$ 649,512
Others	983,269	580,828
	$ 1,753,601	$ 1,230,340
9) Accounts payable to related parties		
Related party in substance	$ 496,787	$ 472,489
10) Other receivables and other current assets		
Subsidiaries	$ 2,885	$ 11,159
Investor that exercises significant influence over the Company	1,172	340
	$ 4,057	$ 11,499

	December 31 2017	December 31 2016
11) Other payables		
Subsidiaries	$ 253,489	$ 217,711
Related party in substance	33,360	32,819
Investor that exercises significant influence over the Company	1,464	6
	$ 288,313	$ 250,536
12) Refundable deposits (recorded as "other non-current assets")		
Subsidiaries	$ 545	$ 545
Investor that exercises significant influence over the Company	203	203
	$ 748	$ 748

13) Disposal of property, plant and equipment

	For the Year Ended December 31			
	2017		2016	
	Proceeds	Gain on Disposal	Proceeds	Gain on Disposal
Subsidiaries	$ -	$ -	$ 10,551	$ 160
Related party in substance	$ 620	$ 114	$ -	$ -

14) Acquisition of financial assets

		For the Year Ended December 31, 2016		
Related Parties Types	**Account Items**	**Number of Shares**	**Underlying Assets**	**Acquisition Price**
Subsidiaries	Investment accounted for using equity method	5,000,000	Techdesign Corporation	$ 50,000

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

c. Compensation of key management personnel

	For the Year Ended December 31 2017	For the Year Ended December 31 2016
Short-term employment benefits	$ 164,090	$ 114,154
Post-employment benefits	587	528
Share-based payments	6,888	-
	$ 171,565	$ 114,682

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

26. PLEDGED AND COLLATERALIZED ASSETS

Refer to Notes 6 and 13.

27. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

a. Amounts available under unused letters of credit as of December 31, 2017 were approximately US$36,514 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

28. FINANCIAL INSTRUMENT

a. Fair value of financial instruments

1) Valuation techniques and assumptions used in fair value measurement

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

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes publicly traded stocks 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 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 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)	$ -	$ 31,035	$ -	$ 31,035
Available-for-sale financial assets				
Domestic listed securities				
Equity securities	$ 6,281,754	$ -	$ -	$ 6,281,754

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	$ 4,275,910	$ -	$ -	$ 4,275,910
Financial liabilities at FVTPL				
Derivative financial liabilities (not under hedge accounting)	$ -	$ 46,581	$ -	$ 46,581

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	$ 11,658,134	$ 11,658,134	$ 4,874,171	$ 4,874,171
Notes and accounts receivable (included related parties)	5,583,780	5,583,780	4,550,580	4,550,580
Other receivables	247,805	247,805	211,734	211,734
Refundable deposits (recorded in other non-current assets)	142,055	142,055	94,860	94,860
Financial assets at FVTPL	31,035	31,035	5,559	5,559
Available-for-sale financial assets	6,281,754	6,281,754	4,275,910	4,275,910
Financial assets measured at cost	27,649	27,649	37,649	37,649

(Continued)

	December 31			
	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Financial liabilities</u>				
Measured at amortized cost				
Short-term borrowing	$ 553,539	$ 553,539	$ -	$ -
Notes and accounts payable (included related parties)	4,002,460	4,002,460	3,797,444	3,797,444
Payable on equipment and other payables	6,395,747	6,395,747	5,780,034	5,780,034
Long-term borrowings (included current portion)	12,094,080	12,094,080	9,784,260	9,784,260
Guarantee deposits (recorded in other non-current liabilities)	458	458	458	458
Financial liabilities at FVTPL	-	-	46,581	46,581

(Concluded)

c. Financial risk management objectives and policies

The Company's major financial instruments included equity and debt investments, borrowings, accounts receivable and accounts payable. The Company'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 Company 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 Company's policies approved by the board of directors, which provided 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 Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Company uses forward foreign exchange contracts to hedge the exchange rate risk on export.

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

a) Foreign currency risk

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

The sensitivity analysis included only outstanding foreign currency denominated monetary items at the end of the reporting period and an increase in net income and equity if New Taiwan dollars strengthen by 1% against foreign currencies. For a 1% weakening of New Taiwan dollars against U.S. dollars, there would be an increase in net income in the amounts of $23,830 thousand and $25,417 thousand for the years ended December 31, 2017 and 2016.

b) Interest rate risk

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

The carrying amount of the Company'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	$ -	$ 493
Financial liabilities	12,094,080	9,784,260

The sensitivity analyses below were determined based on the Company'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 Company's cash flows for the years ended December 31, 2017 and 2016 would increase by $120,941 thousand and $97,838 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 Company.

The Company 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 Company 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 Company reviews the recoverable amount of each individual accounts receivable 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 Company consider that the Company's credit risk was significantly reduced.

3) Liquidity risk

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

The Company'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**
<u>Non-derivative financial liabilities</u>				
Non-interest bearing	$ 10,398,207	$ 458	$ -	$ 10,398,665
Variable interest rate liabilities	3,323,520	4,563,520	4,207,040	12,094,080
Fixed interest rate liabilities	553,539	-	-	553,539
	$ 14,275,266	$ 4,563,978	$ 4,207,040	$ 23,046,284

	December 31, 2016			
	Within 1 Year	1-2 Years	Over 2 Years	Total
Non-derivative financial liabilities				
Non-interest bearing	$ 9,577,478	$ 458	$ -	$ 9,577,936
Variable interest rate liabilities	3,090,180	2,723,520	3,970,560	9,784,260
	$ 12,667,658	$ 2,723,978	$ 3,970,560	$ 19,362,196

29. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the Company 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	New Taiwan Dollars (In Thousand)	Foreign Currencies (In Thousand)	Exchange Rate	New Taiwan Dollars (In Thousand)
Financial assets						
Monetary items						
USD	$ 211,911	29.76	$ 6,306,464	$ 176,037	32.25	$ 5,677,197
EUR	1,673	35.57	59,497	2,603	33.90	88,249
JPY	2,516,883	0.2642	664,961	2,532,339	0.2756	697,913
RMB	93,434	4.565	426,527	46,220	4.617	213,398
Non-monetary items						
ILS	5,619	8.5791	48,202	4,502	8.3882	37,767
Financial liabilities						
Monetary items						
USD	131,835	29.76	3,923,421	97,225	32.25	3,135,513
EUR	18,223	35.57	648,188	3,244	33.90	100,971
JPY	3,231,832	0.2642	853,850	2,680,660	0.2756	738,790

The significant realized and unrealized foreign exchange gains (losses) were as follows:

	For the Year Ended December 31	
Foreign Currencies	2017	2016
USD	$ (248,096)	$ (80,152)
RMB	7,736	(19,696)
JPY	4,956	11,754
	$ (235,404)	$ (88,094)

30. SEGMENT INFORMATION

The Company has provided the financial information of the operating segments in the consolidated financial statements. These parent company only financial statements do not provide such information.