

**Winbond Electronics Corporation and
Subsidiaries**

**Consolidated Financial Statements for the
Six Months Ended June 30, 2018 and 2017 and
Independent Auditors' Review Report**

INDEPENDENT AUDITORS' REVIEW REPORT

The Board of Directors and Shareholders
Winbond Electronics Corporation

Introduction

We have reviewed the accompanying consolidated financial statements of Winbond Electronics Corporation and its subsidiaries (the Group) as of June 30, 2018 and 2017, and the consolidated statements of comprehensive income for the three-month periods then ended June 30, 2018 and 2017 and for the six-month period then ended June 30, 2018 and 2017, as well as the consolidated statements of changes in equity and cash flows for the six-month periods then ended June 30, 2018 and 2017, and the notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on the consolidated financial reports based on our reviews.

Scope of Review

We conducted our reviews in accordance with Statement of Auditing Standards No. 65 "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our reviews, nothing has come to our attention that caused us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects of the financial position of the entity as at June 30, 2018 and 2017, and of its consolidated financial performance and its consolidated cash flows for the six-month periods then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting".

The engagement partners on the reviews resulting in this independent auditors' review report are Hung-Bin Yu and Kenny Hong.

Hung-Bin Yu 

Deloitte & Touche
Taipei, Taiwan
Republic of China

July 27, 2018

Notice to Readers

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

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

WINBOND ELECTRONICS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In Thousands of New Taiwan Dollars)

ASSETS	June 30, 2018 (Reviewed)		December 31, 2017 (Audited)		June 30, 2017 (Reviewed)	
	Amount	%	Amount	%	Amount	%
CURRENT ASSETS						
Cash and cash equivalents (Notes 4 and 6)	\$ 9,344,952	10	\$ 14,172,441	16	\$ 5,902,581	8
Current financial assets at fair value through profit or loss (Notes 4 and 7)	-	-	32,745	-	-	-
Current financial assets at fair value through other comprehensive income (Notes 4 and 8)	9,931,295	10	-	-	-	-
Current available-for-sale financial assets (Notes 4 and 9)	-	-	6,502,762	7	5,168,388	7
Notes and accounts receivable, net (Notes 4 and 10)	7,213,363	8	6,707,490	8	6,172,128	8
Accounts receivable due from related parties, net (Note 28)	54,457	-	33,546	-	52,780	-
Other receivables (Note 6)	696,163	1	654,836	1	519,566	1
Inventories (Notes 4 and 11)	9,339,288	10	8,139,982	9	7,924,333	11
Other current assets	870,049	1	996,403	1	1,132,038	2
Total current assets	<u>37,449,567</u>	<u>40</u>	<u>37,240,205</u>	<u>42</u>	<u>26,871,814</u>	<u>37</u>
NON-CURRENT ASSETS						
Non-current financial assets at fair value through other comprehensive income (Notes 4 and 8)	878,585	1	-	-	-	-
Non-current available-for-sale financial assets (Notes 4 and 9)	-	-	289,789	-	239,546	-
Non-current financial assets measured at cost (Notes 4 and 12)	-	-	340,875	1	601,699	1
Investments accounted for using equity method (Notes 4 and 13)	4,846,205	5	4,430,985	5	3,467,194	5
Property, plant and equipment (Notes 4 and 14)	48,391,798	52	43,828,707	50	39,845,942	54
Investment properties (Notes 4 and 15)	54,259	-	56,278	-	57,614	-
Intangible assets (Notes 4 and 16)	253,111	-	288,013	-	250,836	-
Deferred income tax assets	608,290	1	1,351,087	2	2,034,172	3
Other non-current assets (Note 6)	299,537	1	290,184	-	240,463	-
Total non-current assets	<u>55,331,785</u>	<u>60</u>	<u>50,875,918</u>	<u>58</u>	<u>46,737,466</u>	<u>63</u>
TOTAL	<u>\$ 92,781,352</u>	<u>100</u>	<u>\$ 88,116,123</u>	<u>100</u>	<u>\$ 73,609,280</u>	<u>100</u>
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term borrowings (Note 17)	\$ -	-	\$ 553,539	1	\$ 750,000	1
Short-term bills payable (Note 17)	-	-	-	-	249,945	-
Current financial liabilities at fair value through profit or loss (Note 7)	114,680	-	-	-	39,289	-
Notes and accounts payable	4,691,608	5	4,420,945	5	4,227,370	6
Accounts payable to related parties (Note 28)	642,755	1	496,787	-	521,443	1
Payables on machinery and equipment	1,671,525	2	3,734,501	4	3,132,176	4
Dividends payables (Note 19)	3,980,000	5	-	-	2,148,000	3
Other payables	3,836,483	4	3,268,207	4	2,953,931	4
Current tax liabilities	160,590	-	248,662	-	201,540	-
Long-term borrowings - current portion (Note 17)	3,923,520	4	3,323,520	4	3,556,850	5
Other current liabilities	138,426	-	194,027	-	141,298	-
Total current liabilities	<u>19,159,587</u>	<u>21</u>	<u>16,240,188</u>	<u>18</u>	<u>17,921,842</u>	<u>24</u>
NON-CURRENT LIABILITIES						
Long-term borrowings (Note 17)	6,774,023	7	8,728,773	10	7,983,523	11
Net defined benefit liabilities - non-current	1,061,301	1	1,087,089	1	1,038,251	1
Other non-current liabilities	428,802	1	433,082	1	455,270	1
Total non-current liabilities	<u>8,264,126</u>	<u>9</u>	<u>10,248,944</u>	<u>12</u>	<u>9,477,044</u>	<u>13</u>
Total liabilities	<u>27,423,713</u>	<u>30</u>	<u>26,489,132</u>	<u>30</u>	<u>27,398,886</u>	<u>37</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT (Note 19)						
Share capital	39,800,002	43	39,800,002	45	35,800,002	49
Capital surplus	7,540,440	8	7,540,440	8	2,471,044	3
Retained earnings						
Legal reserve	1,053,441	1	498,385	1	498,385	-
Special reserve	-	-	31,429	-	31,429	-
Unappropriated earnings	6,962,492	8	7,355,893	8	3,555,581	5
Exchange differences on translation of foreign financial statements	(74,043)	-	(120,988)	-	(81,675)	-
Unrealized gains on financial assets at fair value through other comprehensive income	8,724,128	9	-	-	-	-
Unrealized gains on available-for-sale financial assets	-	-	5,107,003	6	2,775,324	4
Treasury shares	-	-	-	-	(106,387)	-
Total equity attributable to owners of the parent	<u>64,006,460</u>	<u>69</u>	<u>60,212,164</u>	<u>68</u>	<u>44,943,703</u>	<u>61</u>
NON-CONTROLLING INTERESTS	<u>1,351,179</u>	<u>1</u>	<u>1,414,827</u>	<u>2</u>	<u>1,266,691</u>	<u>2</u>
Total equity	<u>65,357,639</u>	<u>70</u>	<u>61,626,991</u>	<u>70</u>	<u>46,210,394</u>	<u>63</u>
TOTAL	<u>\$ 92,781,352</u>	<u>100</u>	<u>\$ 88,116,123</u>	<u>100</u>	<u>\$ 73,609,280</u>	<u>100</u>

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

(With Deloitte & Touche review report dated July 27, 2018)

WINBOND ELECTRONICS CORPORATION AND SUBSIDIARIES

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

	Three Months Ended June 30				Six Months Ended June 30			
	2018		2017		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
OPERATING REVENUE	\$ 13,485,223	100	\$ 11,411,277	100	\$ 25,641,406	100	\$ 21,836,240	100
OPERATING COST (Note 11)	<u>8,234,695</u>	<u>61</u>	<u>7,696,712</u>	<u>68</u>	<u>15,811,899</u>	<u>61</u>	<u>15,132,906</u>	<u>69</u>
GROSS PROFIT	<u>5,250,528</u>	<u>39</u>	<u>3,714,565</u>	<u>32</u>	<u>9,829,507</u>	<u>39</u>	<u>6,703,334</u>	<u>31</u>
OPERATING EXPENSES								
Selling expenses	395,137	3	341,178	3	718,045	3	625,295	3
General and administrative expenses	457,334	4	361,857	3	866,778	3	686,946	3
Research and development expenses	<u>1,940,042</u>	<u>14</u>	<u>1,613,187</u>	<u>14</u>	<u>3,758,872</u>	<u>15</u>	<u>3,068,244</u>	<u>14</u>
Total operating expenses	<u>2,792,513</u>	<u>21</u>	<u>2,316,222</u>	<u>20</u>	<u>5,343,695</u>	<u>21</u>	<u>4,380,485</u>	<u>20</u>
INCOME FROM OPERATIONS	<u>2,458,015</u>	<u>18</u>	<u>1,398,343</u>	<u>12</u>	<u>4,485,812</u>	<u>18</u>	<u>2,322,849</u>	<u>11</u>
NON-OPERATING INCOME AND EXPENSES								
Interest income	17,368	-	9,109	-	34,112	-	17,106	-
Dividend income	281,158	2	55,196	1	281,991	1	56,117	-
Other income	10,773	-	37,778	-	19,181	-	46,545	-
Gains on disposal of property, plant and equipment	1,085	-	458	-	960	-	750	-
Gains on disposal of investments	-	-	2,688	-	-	-	2,688	-
Foreign exchange gains (losses)	291,086	2	22,729	-	200,019	1	(180,879)	(1)
Share of profit of associates accounted for using equity method	100,805	1	17,856	-	94,143	-	14	-
Interest expenses	(37,645)	-	(6,923)	-	(77,947)	-	(23,552)	-
Other expenses	(6,534)	-	(43,129)	-	(25,592)	-	(49,322)	-
(Losses) gains on financial instruments at fair value through profit or loss	(296,145)	(2)	(35,586)	-	(221,249)	(1)	149,669	1
Impairment loss on financial assets	<u>-</u>	<u>-</u>	<u>(10,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10,000)</u>	<u>-</u>
Total non-operating income and expenses	<u>361,951</u>	<u>3</u>	<u>50,176</u>	<u>1</u>	<u>305,618</u>	<u>1</u>	<u>9,136</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	2,819,966	21	1,448,519	13	4,791,430	19	2,331,985	11
INCOME TAX EXPENSE (Note 22)	<u>561,612</u>	<u>4</u>	<u>361,979</u>	<u>3</u>	<u>920,906</u>	<u>4</u>	<u>521,982</u>	<u>3</u>
NET PROFIT	<u>2,258,354</u>	<u>17</u>	<u>1,086,540</u>	<u>10</u>	<u>3,870,524</u>	<u>15</u>	<u>1,810,003</u>	<u>8</u>

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WINBOND ELECTRONICS CORPORATION AND SUBSIDIARIES

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

	Three Months Ended June 30				Six Months Ended June 30			
	2018		2017		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME								
Components of other comprehensive income that will not be reclassified to profit or loss:								
Gains on remeasurements of defined benefit plans	\$ -	-	\$ -	-	\$ 221	-	\$ -	-
Unrealized gains on investments in equity instruments designated as at fair value through other comprehensive income	3,352,871	25	-	-	3,298,958	13	-	-
Share of other comprehensive income of associates accounted for using the equity method	576,398	4	-	-	239,598	1	-	-
Components of other comprehensive income that will be reclassified to profit or loss:								
Exchange differences on translation of foreign financial statements	76,782	-	29,852	-	47,046	-	(113,312)	(1)
Unrealized gains on available-for-sale financial assets	-	-	40,550	-	-	-	822,443	4
Share of other comprehensive income of associates accounted for using equity method	-	-	128,794	1	-	-	812,703	4
Other comprehensive income	<u>4,006,051</u>	<u>29</u>	<u>199,196</u>	<u>1</u>	<u>3,585,823</u>	<u>14</u>	<u>1,521,834</u>	<u>7</u>
TOTAL COMPREHENSIVE INCOME	<u>\$ 6,264,405</u>	<u>46</u>	<u>\$ 1,285,736</u>	<u>11</u>	<u>\$ 7,456,347</u>	<u>29</u>	<u>\$ 3,331,837</u>	<u>15</u>
NET PROFIT								
ATTRIBUTABLE TO:								
Owners of the parent	\$ 2,155,382	16	\$ 989,909	9	\$ 3,727,649	14	\$ 1,676,825	8
Non-controlling interests	<u>102,972</u>	<u>1</u>	<u>96,631</u>	<u>1</u>	<u>142,875</u>	<u>1</u>	<u>133,178</u>	<u>-</u>
	<u>\$ 2,258,354</u>	<u>17</u>	<u>\$ 1,086,540</u>	<u>10</u>	<u>\$ 3,870,524</u>	<u>15</u>	<u>\$ 1,810,003</u>	<u>8</u>
TOTAL COMPREHENSIVE INCOME								
ATTRIBUTABLE TO:								
Owners of the parent	\$ 6,180,321	46	\$ 1,159,279	10	\$ 7,373,533	29	\$ 3,170,742	14
Non-controlling interests	<u>84,084</u>	<u>-</u>	<u>126,457</u>	<u>1</u>	<u>82,814</u>	<u>-</u>	<u>161,095</u>	<u>1</u>
	<u>\$ 6,264,405</u>	<u>46</u>	<u>\$ 1,285,736</u>	<u>11</u>	<u>\$ 7,456,347</u>	<u>29</u>	<u>\$ 3,331,837</u>	<u>15</u>
EARNINGS PER SHARE								
(Note 23)								
Basic	<u>\$ 0.54</u>		<u>\$ 0.28</u>		<u>\$ 0.94</u>		<u>\$ 0.47</u>	
Diluted	<u>\$ 0.54</u>		<u>\$ 0.28</u>		<u>\$ 0.94</u>		<u>\$ 0.47</u>	

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

(With Deloitte & Touche review report dated July 27, 2018)

(Concluded)

WINBOND ELECTRONICS CORPORATION AND SUBSIDIARIES

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

	Equity Attributable to Owners of the Parent											Total Equity
	Share Capital	Capital Surplus	Retained Earnings			Exchange Differences on Translation of Foreign Financial Statements	Other Equity		Treasury Shares	Total	Non-controlling Interests	
			Legal Reserve	Special Reserve	Unappropriated Earnings		Unrealized Gains on Financial Assets at Fair Value Through Other Comprehensive Income	Unrealized Gains on Available-for-sale Financial Assets				
BALANCE AT JANUARY 1, 2017	\$ 35,800,002	\$ 2,471,044	\$ 208,606	\$ 1,395,063	\$ 2,952,901	\$ 23,433	\$ -	\$ 1,176,299	\$ (106,387)	\$ 43,920,961	\$ 1,299,838	\$ 45,220,799
Appropriation of 2016 earnings												
Legal reserve	-	-	289,779	-	(289,779)	-	-	-	-	-	-	-
Reversal of special reserve	-	-	-	(1,363,634)	1,363,634	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(2,148,000)	-	-	-	-	(2,148,000)	-	(2,148,000)
Total appropriations	-	-	289,779	(1,363,634)	(1,074,145)	-	-	-	-	(2,148,000)	-	(2,148,000)
Net profit for the six months ended June 30, 2017	-	-	-	-	1,676,825	-	-	-	-	1,676,825	133,178	1,810,003
Other comprehensive income (loss) for the six months ended June 30, 2017	-	-	-	-	-	(105,108)	-	1,599,025	-	1,493,917	27,917	1,521,834
Total comprehensive income (loss) for the six months ended June 30, 2017	-	-	-	-	1,676,825	(105,108)	-	1,599,025	-	3,170,742	161,095	3,331,837
Decrease in non-controlling interests	-	-	-	-	-	-	-	-	-	-	(194,242)	(194,242)
BALANCE, JUNE 30, 2017	<u>\$ 35,800,002</u>	<u>\$ 2,471,044</u>	<u>\$ 498,385</u>	<u>\$ 31,429</u>	<u>\$ 3,555,581</u>	<u>\$ (81,675)</u>	<u>\$ -</u>	<u>\$ 2,775,324</u>	<u>\$ (106,387)</u>	<u>\$ 44,943,703</u>	<u>\$ 1,266,691</u>	<u>\$ 46,210,394</u>
BALANCE AT JANUARY 1, 2018	\$ 39,800,002	\$ 7,540,440	\$ 498,385	\$ 31,429	\$ 7,355,893	\$ (120,988)	\$ -	\$ 5,107,003	\$ -	\$ 60,212,164	\$ 1,414,827	\$ 61,626,991
Adjustment on initial application of IFRS 9	-	-	-	-	471,170	-	5,065,763	(5,107,003)	-	429,930	55,874	485,804
BALANCE, JANUARY 1, 2018 AFTER ADJUSTMENTS	<u>39,800,002</u>	<u>7,540,440</u>	<u>498,385</u>	<u>31,429</u>	<u>7,827,063</u>	<u>(120,988)</u>	<u>5,065,763</u>	<u>-</u>	<u>-</u>	<u>60,642,094</u>	<u>1,470,701</u>	<u>62,112,795</u>
Appropriation of 2017 earnings												
Legal reserve	-	-	555,056	-	(555,056)	-	-	-	-	-	-	-
Reversal of special reserve	-	-	-	(31,429)	31,429	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(3,980,000)	-	-	-	-	(3,980,000)	-	(3,980,000)
Total appropriations	-	-	555,056	(31,429)	(4,503,627)	-	-	-	-	(3,980,000)	-	(3,980,000)
Net profit for the six months ended June 30, 2018	-	-	-	-	3,727,649	-	-	-	-	3,727,649	142,875	3,870,524
Other comprehensive income (loss) for the six months ended June 30, 2018	-	-	-	-	221	46,945	3,598,718	-	-	3,645,884	(60,061)	3,585,823
Total comprehensive income for the six months ended June 30, 2018	-	-	-	-	3,727,870	46,945	3,598,718	-	-	7,373,533	82,814	7,456,347
Disposals of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	(88,814)	-	59,647	-	-	(29,167)	-	(29,167)
Decrease in non-controlling interests	-	-	-	-	-	-	-	-	-	-	(202,336)	(202,336)
BALANCE, JUNE 30, 2018	<u>\$ 39,800,002</u>	<u>\$ 7,540,440</u>	<u>\$ 1,053,441</u>	<u>\$ -</u>	<u>\$ 6,962,492</u>	<u>\$ (74,043)</u>	<u>\$ 8,724,128</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 64,006,460</u>	<u>\$ 1,351,179</u>	<u>\$ 65,357,639</u>

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

(With Deloitte & Touche review report dated July 27, 2018)

WINBOND ELECTRONICS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	Six Months Ended June 30	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 4,791,430	\$ 2,331,985
Adjustments for:		
Depreciation expense	3,543,798	2,787,738
Amortization expense	49,581	54,534
Expected credit loss on trade receivables	6,681	-
Provision for allowance for doubtful accounts	-	14,507
(Reversal of) provision for decline in market value and obsolescence and scraps of inventories	(119,497)	798
Net loss (gain) on financial assets and liabilities at fair value through profit or loss	147,425	(2,440)
Interest expense	77,947	23,552
Interest income	(34,112)	(17,106)
Dividend income	(281,991)	(56,117)
Share of profit of associates accounted for using equity method	(94,143)	(14)
Gain on disposal of property, plant and equipment	(960)	(750)
Property, plant and equipment transferred to expenses	3,980	-
Gain on disposal of investments	-	(2,688)
Impairment loss on financial assets	-	10,000
Changes in operating assets and liabilities		
Increase in notes and accounts receivable	(570,148)	(428,266)
Increase in accounts receivable due from related parties	(20,911)	(3,249)
Decrease in other receivables	180,047	4,900
Increase in inventories	(1,079,809)	(388,970)
Decrease in other current assets	126,354	90,900
(Increase) decrease in other non-current assets	(9,353)	3,264
Increase in notes and accounts payable	270,663	17,650
Increase in accounts payable to related parties	145,968	48,954
Increase in other payables	367,481	9,974
Decrease in other current liabilities	(55,601)	(31,793)
Decrease in other non-current liabilities	(19,296)	(19,086)
Cash generated from operations	7,425,534	4,448,277
Interest received	31,624	14,733
Dividends received	66,291	53,755
Interest paid	(110,707)	(94,416)
Income taxes paid	(202,912)	(44,006)
Net cash generated from operating activities	<u>7,209,830</u>	<u>4,378,343</u>

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WINBOND ELECTRONICS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	Six Months Ended June 30	
	2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of financial assets at fair value through other comprehensive income	\$ (161,328)	\$ -
Proceeds from disposal of financial assets at fair value through other comprehensive income	141,199	-
Proceeds from capital reduction of financial assets at fair value through other comprehensive income	10,294	-
Proceeds from disposal of available-for-sale financial assets	-	39,092
Acquisitions of property, plant and equipment	(10,139,324)	(8,897,167)
Proceeds from disposal of property, plant and equipment	1,914	1,168
Acquisitions of intangible assets	<u>(17,507)</u>	<u>(25,520)</u>
Net cash used in investing activities	<u>(10,164,752)</u>	<u>(8,882,427)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease) increase in short-term borrowings	(553,539)	750,000
Increase in short-term bills payable	-	250,000
Proceeds from long-term borrowings	-	2,700,000
Repayments of long-term borrowings	(1,361,760)	(895,090)
Increase (decrease) in non-controlling interests	<u>101</u>	<u>(8,204)</u>
Net cash (used in) generated from financing activities	<u>(1,915,198)</u>	<u>2,796,706</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>42,631</u>	<u>(73,858)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,827,489)	(1,781,236)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>14,172,441</u>	<u>7,683,817</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 9,344,952</u>	<u>\$ 5,902,581</u>

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

(With Deloitte & Touche review report dated July 27, 2018)

(Concluded)

WINBOND ELECTRONICS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SIX MONTHS ENDED JUNE 30, 2018 AND 2017 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise) (Reviewed, Not Audited)

1. GENERAL INFORMATION

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

The Company’s shares have been listed on the Taiwan Stock Exchange since October 18, 1995. Walsin Lihwa is a major shareholder of the Company and held approximately 22% and 23% ownership interest in the Company as of June 30, 2018 and 2017.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors on July 27, 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) endorsed and issued into effect by the Financial Supervisory Commission (FSC)

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

- 1) IFRS 9 “Financial Instruments” and related amendment

IFRS 9 supersedes IAS 39 “Financial Instruments: Recognition and Measurement”, with consequential amendments to IFRS 7 “Financial Instruments: Disclosures” and other standards. IFRS 9 sets out the requirements for classification, measurement and impairment of financial assets and hedge accounting. Refer to Note 4 for information relating to the relevant accounting policies.

The requirements for classification, measurement and impairment of financial assets have been applied retrospectively from January 1, 2018, and the requirements for hedge accounting have been applied prospectively. IFRS 9 is not applicable to items that have already been derecognized at December 31, 2017.

Classification, measurement and impairment of financial assets

On the basis of the facts and circumstances that existed as at January 1, 2017, the Group has performed an assessment of the classification of recognized financial assets and has elected not to restate prior reporting periods.

The following table shows the original measurement categories and carrying amount under IAS 39 and the new measurement categories and carrying amount under IFRS 9 for each class of the Group's financial assets and financial liabilities as at January 1, 2017.

Financial assets	Measured items			Carrying amount		
	IAS 39		IFRS 9	IAS 39	IFRS 9	
Cash and cash equivalents	Loans and receivables		Amortized cost	\$ 14,172,441	\$ 14,172,441	
Equity securities	Available-for-sale financial assets and financial assets measured at cost		Fair value through other comprehensive income (i.e. FVTOCI) - equity instrument	7,133,426	7,510,851	
Notes receivable, trade receivables and other receivables	Loans and receivables		Amortized cost	7,395,872	7,395,872	
Refundable deposits	Loans and receivables		Amortized cost	230,519	230,519	
	IAS 39 Carrying Amount as of January 1, 2018	Reclassifications	Remeasurements	IFRS 9 Carrying Amount as of January 1, 2018	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018
FVTOCI						
Equity instruments	\$ -	\$ 7,133,426	\$ 377,425	\$ 7,510,851	\$ 124,034	\$ 197,517
Add: From available-for-sale financial assets and financial assets measured at cost (IAS 39)	<u>7,133,426</u>	<u>(7,133,426)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 7,133,426</u>	<u>\$ -</u>	<u>\$ 377,425</u>	<u>\$ 7,510,851</u>	<u>\$ 124,034</u>	<u>\$ 197,517</u>

- a) The Group elected to designate all its investments in equity securities previously classified as available-for-sale under IAS 39 as at FVTOCI under IFRS 9, because these investments are not held for trading. As a result, the related other equity - unrealized gain on available-for-sale financial assets of \$5,107,003 thousand was reclassified to other equity - unrealized gain on financial assets at FVTOCI.

Investments in unlisted shares previously measured at cost under IAS 39 have been designated as at FVTOCI under IFRS 9 and were remeasured at fair value. Consequently, an increase of \$197,517 thousand was recognized in both financial assets at FVTOCI and other equity - unrealized gain on financial assets at FVTOCI on January 1, 2018.

The Group recognized under IAS 39 impairment loss on certain investments in equity securities previously classified as measured at cost and the loss was accumulated in retained earnings. Since those investments were designated as at FVTOCI under IFRS 9 and no impairment assessment is required, an adjustment was made that resulted in a decrease of \$124,034 thousand in other equity - unrealized gain on financial assets at FVTOCI and an increase of \$124,034 thousand in retained earnings on January 1, 2018.

- b) Notes receivable, trade receivables, other receivables and refundable deposits that were previously classified as loans and receivables under IAS 39 were classified as measured at amortized cost with an assessment of expected credit losses under IFRS 9.

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. Refer to Note 4 for related accounting policies.

3) IFRIC 22 "Foreign Currency Transactions and Advance Consideration"

IAS 21 stipulated that a foreign currency transaction shall be recorded on initial recognition in the functional currency by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. IFRIC 22 further

explains that the date of the transaction is the date on which an entity recognizes a non-monetary asset or non-monetary liability from payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine the date of the transaction for each payment or receipt of advance consideration.

The Group applied IFRIC 22 prospectively to all assets, expenses and income recognized on or after January 1, 2018 within the scope of the Interpretation.

- b. 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 by the FSC for application starting from 2019

New, Amended or Revised Standards and Interpretations (the “New IFRSs”)	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 “Prepayment Features with Negative Compensation”	January 1, 2019 (Note 2)
IFRS 16 “Leases”	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019 (Note 3)
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: The Group shall apply these amendments to plan amendments, curtailments or settlements occurring on or after 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.

Definition of a lease

Upon initial application of IFRS 16, the Group will elect to apply IFRS 16 only to contracts entered into (or changed) on or after January 1, 2019 in order to determine whether those contracts are, or contain, a lease. Contracts identified as containing a lease under IAS 17 and IFRIC 4 will not be reassessed and will be accounted for in accordance with the transitional provisions under IFRS 16.

The Group as lessee

Upon initial application of IFRS 16, the Group will recognize right-of-use assets, or investment properties if the right-of-use assets meet the definition of investment properties, and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value and short-term leases will be recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Group will present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities will be classified within financing activities;

cash payments for the interest portion will be classified within operating activities. Currently, payments under operating lease contracts are recognized as expenses on a straight-line basis. Cash flows for operating leases are classified within operating activities on the consolidated statements of cash flows. Leased assets and finance lease payables are recognized for contracts classified as finance leases.

The Group anticipates applying IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized on January 1, 2019. Comparative information will not be restated.

The Group as lessor

Except for sublease transactions, the Group will not make any adjustments for leases in which it is a lessor and will account for those leases with the application of IFRS 16 starting from January 1, 2019.

The Group subleased its leasehold dormitory from Science Park to a third party. Such sublease is classified as an operating lease under IAS 17. The Group will assess the sublease classification on the basis of the remaining contractual terms and conditions of the head lease and sublease on January 1, 2019.

2) IFRIC 23 “Uncertainty over Income Tax Treatments”

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

Upon initial application of IFRIC 23, the Group will recognize the cumulative effect of retrospective application in retained earnings on January 1, 2019.

3) Annual Improvements to IFRSs 2015-2017 Cycle

Several standards, including IFRS 3, IFRS 11, IAS 12 and IAS 23 “Borrowing Costs”, were amended in this annual improvement. IAS 23 was amended to clarify that, if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, the related borrowing costs shall be included in the calculation of the capitalization rate on general borrowings.

c. New IFRSs in issue but not yet endorsed and issued into effect by the FSC

New IFRSs	Effective Date Announced by IASB (Note)
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 17 “Insurance Contracts”	January 1, 2021

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting" as endorsed issued into effect by the FSC. Disclosure information included in the consolidated financial statements do not present all the disclosures required for a complete set of annual financial statements.

Basis of Preparation

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

Basis of Consolidation

a. Principles for preparing consolidated financial statements

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

Attribution of total comprehensive income to non-controlling interests

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

Changes in the Group's ownership interests in existing subsidiaries

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

b. Subsidiaries included in consolidated financial statements

Investor	Investee	Main Business	% of Ownership		
			June 30, 2018	December 31, 2017	June 30, 2017
The Company	Winbond Int'l Corporation ("WIC")	Investment holding	100	100	100
WIC	Winbond Electronics Corp. America ("WECA")	Design, sales and after-sales service of semiconductor	100	100	100
The Company	Landmark Group Holdings Ltd. ("Landmark")	Investment holding	100	100	100
Landmark	Winbond Electronics Corp. Japan ("WECJ")	Research, development, sales and after-sales service of semiconductor	100	100	100
Landmark	Peaceful River Corp. ("PRC")	Investment holding	100	100	100
The Company	Winbond Electronics (HK) Limited ("WEHK")	Sale of semiconductor	100	100	100
The Company	Pine Capital Investment Limited ("PCI")	Investment holding	100	100	100
PCI	Winbond Electronics (Suzhou) Limited ("WECN")	Design, development and marketing of VLSI integrated ICs	100	100	100
The Company	Mobile Magic Design Corporation ("MMDC")	Design, development and marketing of Pseudo SRAM	100	100	100
The Company	Winbond Technology LTD ("WTL")	Design and service of semiconductor	100	100	100
The Company	Newfound Asian Corp. ("NAC")	Investment holding	100	100	100
NAC	Baystar Holdings Ltd. ("BHL")	Investment holding	100	100	100
The Company	Nuvoton Technology Corporation ("NTC")	Research, development, design, manufacture and marketing of Logic IC, 6 inch wafer product, test, and OEM	61	61	61
The Company	Techdesign Corporation ("TDC")	Electronic commerce and product marketing	100	100	100
NTC	Marketplace Management Ltd. ("MML")	Investment holding	100	100	100
MML	Goldbond LLC ("GLLC")	Investment holding	100	100	100
GLLC	Nuvoton Electronics Technology (Shanghai) Limited ("NTSH")	Provide project of sale in China and repair, test and consult of software	100	100	100
GLLC	Winbond Electronics (Nanjing) Ltd. ("WENJ")	Computer software service (except I.C. design)	100	100	100
NTC	Pigeon Creek Holding Co., Ltd. ("PCH")	Investment holding	100	100	100
PCH	Nuvoton Technology Corp. America ("NTCA")	Design, sales and after-sales service of semiconductor	100	100	100
NTC	Nuvoton Investment Holding Ltd. ("NIH")	Investment holding	100	100	100
NIH	Nuvoton Technology Israel Ltd. ("NTIL")	Design and service of semiconductor	100	100	100
NTC	Nuvoton Electronics Technology (H.K.) Limited ("NTHK")	Sales of semiconductor	100	100	100
NTHK	Nuvoton Electronics Technology (Shenzhen) Limited ("NTSZ")	Computer software service (except I.C. design), wholesale business for computer, supplement and software	100	100	100
NTC	Song Yong Investment Corporation ("SYI")	Investment holding	100	100	100
NTC	Nuvoton Technology India Private Limited ("NTIPL")	Design, sales and service of semiconductor	100	100	100

Classification of Current and Non-current Assets and Liabilities

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

Foreign Currencies

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

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

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

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

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

Cash Equivalents

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

Financial Instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities other than financial assets and financial liabilities at FVTPL are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

a. Measurement category

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.

2018

Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost, and equity instruments at FVTOCI.

1) Financial asset at FVTPL

Financial asset is classified as at FVTPL when the financial asset is mandatorily classified or it is designated as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria or the FVOCI criteria.

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 27.

2) Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- a) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost are measured at amortized cost, which equals to gross carrying amount determined by the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for:

- a) Purchased or originated credit-impaired financial assets, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset; and
- b) Financial assets that have subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset.

3) Investments in equity instruments at FVTOCI

On initial recognition, the Group may make an irrevocable election to designate investments in equity instruments as at FVOCI. Designation at FVOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

2017

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

1) Financial assets at fair value through profit or loss

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

2) Available-for-sale financial assets

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

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

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

3) Loans and receivables

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

b. Impairment of financial assets

2018

The Group recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables).

The Group always recognizes lifetime Expected Credit Loss (i.e. ECL) for trade receivables. For all other financial instruments, the Group recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Expected credit losses reflect the weighted average of credit losses with the respective risks of a default occurring as the weights. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

2017

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

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

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

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

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

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

c. Derecognition of financial assets

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

d. Financial liabilities

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

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

e. Derecognition of financial liabilities

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

f. Derivative financial instruments

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

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

g. Information about fair value of financial instruments

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

- 1) The fair values of financial assets and liabilities which have standard terms and conditions and traded in active market are determined by reference to quoted market price. If there is no quoted market price in active market, valuation techniques are applied.
- 2) The fair value of foreign-currency derivative financial instrument could be determined by reference to the price and discount rate of currency swap quoted by financial institutions. Foreign exchange forward contracts use individual maturity rate to calculate the fair value of each contract.
- 3) The fair values of other financial assets and financial liabilities are determined by discounted cash flow analysis in accordance with generally accepted pricing models.

Inventories

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

Investments in Associates

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

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

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Group's

share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

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

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

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

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

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

Property, Plant and Equipment

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

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

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

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

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

Buildings	8-20 years
Machinery and equipment	3-7 years
Other equipment	5 years

Investment Properties

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

Intangible Assets

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

Impairment of Tangible and Intangible Assets (Except Goodwill)

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

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

Before the Group recognizes an impairment loss from assets related to contract costs, any impairment loss on inventories, property, plant and equipment and intangible assets related to the contract applicable under IFRS 15 shall be recognized in accordance with applicable standards. Then, impairment loss from the assets related to the contract costs is recognized to the extent that the carrying amount of the assets exceeds the remaining amount of consideration that the Group expects to receive in exchange for related goods or services less the costs which relate directly to providing those goods or services and which have not been recognized as expenses. The assets related to the contract costs are then included in the carrying amount of the cash-generating unit to which they belong for the purpose of evaluating impairment of that cash-generating unit.

When an impairment loss subsequently is reversed, the carrying amount of the asset, cash-generating unit or contract costs related assets 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, cash-generating unit or contract costs related assets in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Provisions

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

Revenue Recognition

2018

The Group identify the performance obligations in the contract with customers, allocate the transaction price to the performance obligations in the contracts and recognise revenue when (or as) the entity satisfies a performance obligation.

2017

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

Leasing

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

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

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

Borrowing Costs

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

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

Employee Benefits

a. Short-term employee benefits

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

b. Retirement benefits

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

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

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

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

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Interim period income taxes are assessed on an annual basis and calculated by applying to an interim period's pre-tax income the tax rate that would be applicable to expected total annual earnings. The effect of a change in tax rate resulting from a change in tax law is recognized consistent with the accounting for the transaction itself which gives rise to the tax consequence, and is recognized in profit or loss. The effect of the change in tax rate relating to transactions recognized in profit or loss is included in estimating the average annual income tax rate, consequently spreading the effect throughout the interim period.

a. Current tax

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

b. Deferred tax

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

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

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The Group's critical accounting judgments and key sources of estimation uncertainty is below:

a. Valuation of inventory

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

b. Impairment of financial assets - 2018

The provision for impairment of trade receivables is based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and in selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, see Note 10. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

c. Impairment of accounts receivable - 2017

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

6. CASH AND CASH EQUIVALENTS

	June 30, 2018	December 31, 2017	June 30, 2017
Cash and deposits in banks	\$ 8,114,431	\$ 11,749,013	\$ 4,832,381
Repurchase agreements collateralized by bonds	<u>1,230,521</u>	<u>2,423,428</u>	<u>1,070,200</u>
	<u>\$ 9,344,952</u>	<u>\$ 14,172,441</u>	<u>\$ 5,902,581</u>

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

	June 30, 2018	December 31, 2017	June 30, 2017
Time deposits	<u>\$ 201,001</u>	<u>\$ 191,227</u>	<u>\$ 140,599</u>

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

	June 30, 2018	December 31, 2017	June 30, 2017
Time deposits	<u>\$ 232,496</u>	<u>\$ 339,541</u>	<u>\$ 204,244</u>

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	June 30, 2018	December 31, 2017	June 30, 2017
<u>Financial assets at FVTPL - current</u>			
Derivative financial assets (not under hedge accounting)			
Forward exchange contracts	\$ -	\$ 29,447	\$ -
Foreign exchange swap contracts	<u>-</u>	<u>3,298</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ 32,745</u>	<u>\$ -</u>
<u>Financial liabilities at FVTPL - current</u>			
Derivative financial liabilities (not under hedge accounting)			
Forward exchange contracts	\$ 110,017	\$ -	\$ 30,471
Foreign exchange swap contracts	<u>4,663</u>	<u>-</u>	<u>8,818</u>
	<u>\$ 114,680</u>	<u>\$ -</u>	<u>\$ 39,289</u>

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

	Currencies	Maturity Date	Contract Amount (In Thousand)
<u>June 30, 2018</u>			
Sell forward exchange contracts	USD to NTD	2018.07.05-2018.09.07	USD193,000/NTD5,759,776
Foreign exchange swap contracts	USD to NTD	2018.07.06-2018.07.27	USD8,370/NTD250,092

(Continued)

	Currencies	Maturity Date	Contract Amount (In Thousand)
<u>December 31, 2017</u>			
Sell forward exchange contracts	USD to NTD	2018.01.05-2018.02.23	USD114,550/NTD3,429,554
Foreign exchange swap contracts	USD to NTD	2018.02.02-2018.02.23	USD14,188/NTD423,559
<u>June 30, 2017</u>			
Sell forward exchange contracts	USD to NTD	2017.07.06-2017.08.25	USD94,200/NTD2,840,008
Sell forward exchange contracts	RMB to NTD	2017.07.14-2017.08.11	RMB51,000/NTD224,924
Foreign exchange swap contracts	USD to NTD	2017.07.07-2017.08.04	USD23,600/NTD709,128
Foreign exchange swap contracts	NTD to RMB	2017.07.14	NTD67,974/RMB15,200
(Concluded)			

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

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - 2018

Equity instruments at FVTOCI:

	June 30, 2018
Domestic listed and emerging stocks	
Walsin Lihwa Corporation	\$ 4,140,000
Walsin Technology Corporation	4,086,649
Hannstar Display Corporation	911,612
Walton Advanced Engineering Inc.	695,871
Nyquest Technology Co., Ltd.	184,370
Brightek Optoelectronic Co., Ltd.	526
Domestic unlisted stocks	
United Industrial Gases Co., Ltd.	369,600
Yu-Ji Venture Capital Co., Ltd.	25,788
Harbinger III Venture Capital Corp.	10,039
Others	17,650
Overseas listed stocks	
Everspin Technologies, Inc.	90,432
Telit Communications PLC	6,731
Overseas unlisted stocks	
LTIP Trust Fund	224,110
JVP VIII, L.P.	45,690
Others	<u>812</u>
	<u>\$ 10,809,880</u>
Current	\$ 9,931,295
Non-current	<u>878,585</u>
	<u>\$ 10,809,880</u>

These investments in equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes. These investments in equity instruments were classified as available-for-sale and financial assets measured at cost under IAS 39. Refer to Note 3, Note 9 and Note 12 for information relating to their reclassification and comparative information for 2017.

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS - 2017

	December 31, 2017	June 30, 2017
Listed stocks and exchange traded funds		
Walsin Lihwa Corporation	\$ 3,520,000	\$ 2,680,000
Hannstar Display Corporation	994,668	1,132,734
Walsin Technology Corporation	961,077	532,886
Walton Advanced Engineering Inc.	806,009	658,324
Nyquest Technology Co., Ltd.	289,789	239,546
Vanguard Short-Term Corporate Bond ETF	146,318	150,959
Everspin Technologies, Inc.	68,143	-
Telit Communications PLC	<u>6,547</u>	<u>13,485</u>
Available-for-sale financial assets	<u>\$ 6,792,551</u>	<u>\$ 5,407,934</u>
Current	\$ 6,502,762	\$ 5,168,388
Non-current	<u>289,789</u>	<u>239,546</u>
	<u>\$ 6,792,551</u>	<u>\$ 5,407,934</u>

10. NOTES AND ACCOUNTS RECEIVABLE

	June 30, 2018	December 31, 2017	June 30, 2017
<u>Notes receivable</u>	\$ -	\$ 54,203	\$ -
<u>Accounts receivable</u>			
At amortized cost			
Gross carrying amount	7,379,692	6,811,589	6,317,385
Less: Allowance for impairment loss	<u>(166,329)</u>	<u>(158,302)</u>	<u>(145,257)</u>
	<u>\$ 7,213,363</u>	<u>\$ 6,707,490</u>	<u>\$ 6,172,128</u>

Six months ended June 30, 2018

The average credit period of sales of goods was 30-60 days. No interest was charged on trade receivables. The Group adopted a policy of only dealing with entities that are rated the equivalent of investment grade or higher and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. Credit rating information is supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread

amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved annually.

In order to minimize credit risk, the management of the Group has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowance is made for possible irrecoverable amounts. In this regard, the management believes the Group's credit risk was significantly reduced.

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The Group estimates expected credit losses based on past due days. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished between the Group's different customer base.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. For trade receivables that have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of trade receivables based on the Group's provision matrix.

June 30, 2018

	Not Overdue	Overdue under 30 Days	Overdue 31-90 days	Overdue 91-180 days	Over 365 days	Total
Expected credit loss rate	2%	2%	10%	20%	100%	-
Gross carrying amount	\$ 7,159,703	\$ 186,235	\$ 14,910	\$ -	\$ 18,844	\$ 7,379,692
Loss allowance (Lifetime ECL)	<u>(142,269)</u>	<u>(3,725)</u>	<u>(1,491)</u>	<u>-</u>	<u>(18,844)</u>	<u>(166,329)</u>
Amortized cost	<u>\$ 7,017,434</u>	<u>\$ 182,510</u>	<u>\$ 13,419</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,213,363</u>

The movements of the loss allowance of trade receivables were as follows:

	Six Months Ended June 30
Balance at January 1 (IAS 39)	\$ 158,302
Adjustment on initial application of IFRS 9	<u>-</u>
Balance at January 1 (IFRS 9)	158,302
Add: Net remeasurement of loss allowance	6,681
Effect of exchange rate changes	<u>1,346</u>
Balance at June 30	<u>\$ 166,329</u>

Six months ended June 30, 2017

The Group applied the same credit policy in 2018 and 2017. 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	June 30, 2017
Not overdue	\$ 6,341,970	\$ 6,133,317
Overdue under 30 days	428,890	160,163
Overdue 31-60 days	17,058	4,731
Overdue 61 days and longer	<u>23,671</u>	<u>19,174</u>
	<u>\$ 6,811,589</u>	<u>\$ 6,317,385</u>

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

	Six Months Ended June 30
Balance at January 1	\$ 132,304
Add: Provision recognized on accounts receivable	14,507
Effect of exchange rate changes	<u>(1,554)</u>
Balance at June 30	<u>\$ 145,257</u>

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

11. INVENTORIES

	June 30, 2018	December 31, 2017	June 30, 2017
Finished goods	\$ 2,092,506	\$ 1,632,997	\$ 1,680,737
Work-in-process	6,524,445	5,811,125	5,697,009
Raw materials and supplies	705,689	614,338	545,531
Inventories in transit	<u>16,648</u>	<u>81,522</u>	<u>1,056</u>
	<u>\$ 9,339,288</u>	<u>\$ 8,139,982</u>	<u>\$ 7,924,333</u>

- a. Operating costs for the three months ended June 30, 2018 and 2017 included reversal of inventory write-downs for the decline in market value, obsolescence and scrap of inventories of \$9,641 thousand and \$11,974 thousand, respectively. Operating costs for the six months ended June 30, 2018 and 2017 included reversal of inventory write-downs for the decline in market value, obsolescence and scrap of inventories of \$119,497 thousand and inventory write-downs of \$798 thousand, respectively. Operating costs for the three months ended June 30, 2018 and 2017 and for the six months ended June 30, 2018 and 2017 decreased by \$9,582 thousand, \$26,344 thousand, \$120,114 thousand and \$25,110 thousand due to the net realizable value of inventory increased.
- b. Unallocated fixed manufacturing costs recognized as cost of sales in the three months ended June 30, 2018 and 2017, and the six months ended June 30, 2018 and 2017 were \$7,609 thousand and \$45,826 thousand, \$116,036 thousand and \$127,998 thousand, respectively.

12. FINANCIAL ASSETS MEASURED AT COST - 2017

	December 31, 2017	June 30, 2017
LTIP Trust Fund	\$ 209,320	\$ 466,144
United Industrial Gases Co., Ltd.	81,081	81,081
Yu-Ji Venture Capital Co., Ltd.	21,000	25,000
Harbinger III Venture Capital Corp.	10,976	10,976
Others	<u>18,498</u>	<u>18,498</u>
Non-current financial assets measured at cost	<u>\$ 340,875</u>	<u>\$ 601,699</u>

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

After proper assessment, the Company recognized an impairment loss on Smart Catch International Co., Ltd. of \$10,000 thousand, which was recorded as "impairment loss on financial assets" for the six months ended June 30, 2017.

13. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

Investments in Associates

	June 30, 2018	December 31, 2017	June 30, 2017
Associates that are not individually material			
Chin Xin Investment Co., Ltd.	<u>\$ 4,846,205</u>	<u>\$ 4,430,985</u>	<u>\$ 3,467,194</u>

As of June 30, 2018, the Company had 182,841 thousand shares of Chin Xin Investment Co., Ltd. with a 38% ownership interest.

The investments accounted for using equity method and the shares of profit or loss and other comprehensive income of those investments for the six months ended June 30, 2018 and 2017 were based on the associates' financial statements reviewed by independent auditors.

14. PROPERTY, PLANT AND EQUIPMENT

	June 30, 2018	December 31, 2017	June 30, 2017
Land	\$ 1,619,251	\$ 1,617,532	\$ 1,619,152
Buildings	10,092,721	10,312,093	10,832,574
Machinery and equipment	34,546,395	29,380,489	26,328,294
Other equipment	674,823	1,114,764	535,206
Construction in progress and prepayments for purchase of equipment	<u>1,458,608</u>	<u>1,403,829</u>	<u>530,716</u>
	<u>\$ 48,391,798</u>	<u>\$ 43,828,707</u>	<u>\$ 39,845,942</u>

	Land	Buildings	Machinery and Equipment	Other Equipment	Construction in Progress and Prepayments for Purchase of Equipment	Total
Cost						
Balance at January 1, 2018	\$ 1,617,532	\$ 25,773,108	\$ 108,091,801	\$ 4,208,296	\$ 1,403,829	\$ 141,094,566
Additions	-	300,118	6,918,165	169,141	719,299	8,106,723
Disposals	-	-	(179,802)	(9,160)	-	(188,962)
Reclassified	-	85,050	1,100,398	(525,481)	(659,967)	-
Transfer to expense	-	-	-	-	(3,980)	(3,980)
Effect of exchange rate changes	1,719	6,194	(685)	(1,519)	(573)	5,136
Balance at June 30, 2018	<u>\$ 1,619,251</u>	<u>\$ 26,164,470</u>	<u>\$ 115,929,877</u>	<u>\$ 3,841,277</u>	<u>\$ 1,458,608</u>	<u>\$ 149,013,483</u>
Accumulated depreciation and impairment						
Balance at January 1, 2018	\$ -	\$ 15,461,015	\$ 78,711,312	\$ 3,093,532	\$ -	\$ 97,265,859
Depreciation expenses	-	606,517	2,851,229	83,663	-	3,541,409
Disposals	-	-	(178,855)	(9,153)	-	(188,008)
Reclassified	-	23	-	(23)	-	-
Effect of exchange rate changes	-	4,194	(204)	(1,565)	-	2,425
Balance at June 30, 2018	<u>\$ -</u>	<u>\$ 16,071,749</u>	<u>\$ 81,383,482</u>	<u>\$ 3,166,454</u>	<u>\$ -</u>	<u>\$ 100,621,685</u>
Cost						
Balance at January 1, 2017	\$ 1,623,646	\$ 21,615,031	\$ 93,310,319	\$ 3,451,660	\$ 6,437,073	\$ 126,437,729
Additions	-	601,839	5,335,285	629,033	1,707,848	8,274,005
Disposals	-	(476)	(225,745)	(5,253)	-	(231,474)
Reclassified	-	3,492,971	4,641,977	(520,743)	(7,614,205)	-
Transfer to other current assets	-	-	(19)	-	-	(19)
Effect of exchange rate changes	(4,494)	(16,121)	21	106	-	(20,488)
Balance at June 30, 2017	<u>\$ 1,619,152</u>	<u>\$ 25,693,244</u>	<u>\$ 103,061,838</u>	<u>\$ 3,554,803</u>	<u>\$ 530,716</u>	<u>\$ 134,459,753</u>
Accumulated depreciation and impairment						
Balance at January 1, 2017	\$ -	\$ 14,386,400	\$ 74,729,065	\$ 2,949,727	\$ -	\$ 92,065,192
Depreciation expenses	-	484,453	2,225,761	75,222	-	2,785,436
Disposals	-	(97)	(220,820)	(5,221)	-	(226,138)
Effect of exchange rate changes	-	(10,086)	(462)	(131)	-	(10,679)
Balance at June 30, 2017	<u>\$ -</u>	<u>\$ 14,860,670</u>	<u>\$ 76,733,544</u>	<u>\$ 3,019,597</u>	<u>\$ -</u>	<u>\$ 94,613,811</u>

a. As of June 30, 2018, December 31, 2017 and June 30, 2017, the carrying amounts of \$19,710,616 thousand, \$21,256,153 thousand and \$17,123,701 thousand of land, buildings and 12-inch Fab manufacturing facilities were pledged to secure long-term borrowings. The Group was not permitted to sell or pledge any of these pledged assets.

b. Information about capitalized interest

	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
Capitalized interest amounts	\$ 15,062	\$ 42,040	\$ 30,374	\$ 71,123
Capitalized interest rates	1.79%	1.79%	1.79%	1.79%

15. INVESTMENT PROPERTIES

	June 30, 2018	December 31, 2017	June 30, 2017
Investment properties, net	<u>\$ 54,259</u>	<u>\$ 56,278</u>	<u>\$ 57,614</u>

The investment properties is in Shen-Zhen, China. As of December 31, 2017 and 2016, the fair value of such investment properties were both approximately \$200,000 thousand, which was referred by the neighborhood transactions. The Group's management team evaluated the fair value of investment properties and determined that the fair value of the investment properties had not changed significantly, compared to the fair value of the investment properties during the six months ended June 30, 2018 and 2017.

	Investment Properties
<u>Cost</u>	
Balance at January 1, 2018	\$ 104,460
Effect of exchange rate changes	<u>642</u>
Balance at June 30, 2018	<u>\$ 105,102</u>
<u>Accumulated depreciation and impairment</u>	
Balance at January 1, 2018	\$ 48,182
Depreciation expenses	2,389
Effect of exchange rate changes	<u>272</u>
Balance at June 30, 2018	<u>\$ 50,843</u>
<u>Cost</u>	
Balance at January 1, 2017	\$ 105,650
Effect of exchange rate changes	<u>(2,997)</u>
Balance at June 30, 2017	<u>\$ 102,653</u>
<u>Accumulated depreciation and impairment</u>	
Balance at January 1, 2017	\$ 43,977
Depreciation expenses	2,302
Effect of exchange rate changes	<u>(1,240)</u>
Balance at June 30, 2017	<u>\$ 45,039</u>

16. INTANGIBLE ASSETS

	June 30, 2018	December 31, 2017	June 30, 2017
Deferred technical assets, net	\$ 250,285	\$ 285,277	\$ 249,521
Other intangible assets, net	<u>2,826</u>	<u>2,736</u>	<u>1,315</u>
	<u>\$ 253,111</u>	<u>\$ 288,013</u>	<u>\$ 250,836</u>

	Deferred Technical Assets	Other Intangible Assets	Total
<u>Cost</u>			
Balance at January 1, 2018	\$ 18,877,126	\$ 23,329	\$ 18,900,455
Additions	7,374	427	7,801
Disposals	-	(536)	(536)
Effect of exchange rate changes	<u>(1,698)</u>	<u>830</u>	<u>(868)</u>
Balance at June 30, 2018	<u>\$ 18,882,802</u>	<u>\$ 24,050</u>	<u>\$ 18,906,852</u>
<u>Accumulated amortization and impairment</u>			
Balance at January 1, 2018	\$ 18,591,849	\$ 20,593	\$ 18,612,442
Amortization expenses	42,155	416	42,571
Disposals	-	(536)	(536)
Effect of exchange rate changes	<u>(1,487)</u>	<u>751</u>	<u>(736)</u>
Balance at June 30, 2018	<u>\$ 18,632,517</u>	<u>\$ 21,224</u>	<u>\$ 18,653,741</u>
<u>Cost</u>			
Balance at January 1, 2017	\$ 18,789,610	\$ 22,325	\$ 18,811,935
Additions	12,033	88	12,121
Effect of exchange rate changes	<u>962</u>	<u>(378)</u>	<u>584</u>
Balance at June 30, 2017	<u>\$ 18,802,605</u>	<u>\$ 22,035</u>	<u>\$ 18,824,640</u>
<u>Accumulated amortization and impairment</u>			
Balance at January 1, 2017	\$ 18,505,878	\$ 20,753	\$ 18,526,631
Amortization expenses	47,220	304	47,524
Effect of exchange rate changes	<u>(14)</u>	<u>(337)</u>	<u>(351)</u>
Balance at June 30, 2017	<u>\$ 18,553,084</u>	<u>\$ 20,720</u>	<u>\$ 18,573,804</u>

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 life 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. The estimated useful lives of other intangible assets were 3-5 years.

17. BORROWINGS

a. Short-term borrowings

	<u>June 30, 2018</u>		<u>December 31, 2017</u>		<u>June 30, 2017</u>	
	Interest Rate %	Amount	Interest Rate %	Amount	Interest Rate %	Amount
Bank lines of credit	-	\$ <u>-</u>	0.75	\$ <u>553,539</u>	0.85-1.10	\$ <u>750,000</u>

b. Short-term bills payable

	June 30, 2017	December 31, 2017	June 30, 2017
Commercial paper payable	\$ -	\$ -	\$ 250,000
Less: Unamortized discount on bills payable	<u>-</u>	<u>-</u>	<u>(55)</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 249,945</u>

June 30, 2017

Institution	Nominal Amount	Discount Amount	Carrying Value	Rate
Mega Bills Finance Co., Ltd./ Taiwan Depository & Clearing Corporation	<u>\$ 250,000</u>	<u>\$ 55</u>	<u>\$ 249,945</u>	0.96%

c. Long-term borrowings

	Period	Interest Rate	June 30, 2018	December 31, 2017	June 30, 2017
CTBC Bank Co., Ltd. syndicated loan (IV)	2014.07.07-2019.11.27	1.87%-2.23%	\$ 3,900,000	\$ 5,200,000	\$ 7,333,330
Bank of Taiwan secured medium-term loan	2014.12.29-2021.12.29	1.40%-1.70%	432,320	494,080	555,840
Bank of Taiwan syndicated loan (IV)	2016.08.15-2021.12.29	1.79%	6,400,000	6,400,000	3,700,000
			<u>10,732,320</u>	<u>12,094,080</u>	<u>11,589,170</u>
Less: Current portion			(3,923,520)	(3,323,520)	(3,556,850)
Less: Syndication agreement management fee			(34,777)	(41,787)	(48,797)
			<u>\$ 6,774,023</u>	<u>\$ 8,728,773</u>	<u>\$ 7,983,523</u>

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 14 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 14. 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, fund the borrowing payments and replenish medium-term working capital. 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 14 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.

18. RETIREMENT BENEFIT PLANS

The employee benefit expense in respect of the Group's defined benefit retirement plans was calculated using the actuarially determined pension cost discount rate as of December 31, 2017 and 2016, and recognized \$26,100 thousand and \$26,901 thousand, \$49,712 thousand and \$49,722 thousand for the three months ended June 30, 2018 and 2017, and the six months ended June 30, 2018 and 2017, respectively.

19. EQUITY

a. Share capital

	June 30, 2018	December 31, 2017	June 30, 2017
Number of shares authorized (in thousand)	<u>6,700,000</u>	<u>6,700,000</u>	<u>6,700,000</u>
Share authorized	<u>\$ 67,000,000</u>	<u>\$ 67,000,000</u>	<u>\$ 67,000,000</u>
Number of shares issued and fully paid (in thousand)	<u>3,980,000</u>	<u>3,980,000</u>	<u>3,580,000</u>
Share issued	<u>\$ 39,800,002</u>	<u>\$ 39,800,002</u>	<u>\$ 35,800,002</u>

As of June 30, 2017, the balance of the Company's capital account amounted to \$35,800,002 thousand, divided into 3,580,000 thousand shares with par value of NT\$10.00 per share.

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 June 30, 2018, 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

	June 30, 2018	December 31, 2017	June 30, 2017
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	\$ 5,026,873	\$ -
Arising from treasury share transactions	2,342,036	2,342,036	2,299,513
Arising from conversion of bonds	136,352	136,352	136,352
<u>May be used to offset a deficit only</u>			
Arising from changes in percentage of ownership interest in subsidiaries	6,042	6,042	6,042
Arising from share of changes in capital surplus of associates	<u>29,137</u>	<u>29,137</u>	<u>29,137</u>
	<u>\$ 7,540,440</u>	<u>\$ 7,540,440</u>	<u>\$ 2,471,044</u>

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

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.

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 remaining amount of the net profit after tax of the current year, after covering the accumulative losses and setting aside the legal reserve and the special reserve, 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 the actual appropriations, refer to Note 21 on employee benefits expenses.

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

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

The appropriations of earnings for 2017 and 2016 were approved in the shareholders' meetings on June 11, 2018 and June 13, 2017, respectively, as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For Year 2017	For Year 2016	For Year 2017	For Year 2016
Legal reserve	\$ 555,056	\$ 289,779		
Reversal of special reserve	(31,429)	(1,363,634)		
Cash dividends	<u>3,980,000</u>	<u>2,148,000</u>	\$ 1.0	\$ 0.6
	<u>\$ 4,503,627</u>	<u>\$ 1,074,145</u>		

d. Other equity items

1) Exchange differences on translation of foreign financial statements

	Six Months Ended June 30	
	2018	2017
Balance at January 1	\$ (120,988)	\$ 23,433
Exchange differences arising on translating the financial statements of foreign operations	<u>46,945</u>	<u>(105,108)</u>
Balance at June 30	<u>\$ (74,043)</u>	<u>\$ (81,675)</u>

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

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

	Amounts
Balance at January 1, 2017	\$ 1,176,299
Unrealized gain arising on revaluation of available-for-sale financial assets	786,322
Share of unrealized gain on revaluation of available-for-sale financial assets of associates accounted for using equity method	<u>812,703</u>
Balance at June 30, 2017	<u>\$ 2,775,324</u>
Balance at January 1, 2018 (IAS 39)	\$ 5,107,003
Adjustment on initial application of IFRS 9	<u>(5,107,003)</u>
Balance at January 1, 2018 (IFRS 9)	<u>\$ -</u>

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.

3) Unrealized gain on financial assets at FVTOCI

	Six Months Ended June 30, 2018
Balance at January 1 (IAS 39)	\$ -
Adjustment on initial application of IFRS 9	<u>5,065,763</u>
Balance at January 1 (IAS 9)	5,065,763
Unrealized gain arising on revaluation of financial assets at FVTOCI	3,359,120
Share of unrealized gain on revaluation of financial assets at FVTOCI of associates accounted for using equity method	239,598
Cumulative unrealized loss of equity instruments transferred to retained earnings due to disposal	<u>59,647</u>
Balance at June 30	<u>\$ 8,724,128</u>

Unrealized gain/loss on financial assets at FVTOCI represents the cumulative gains or losses arising from the fair value measurement on financial assets at FVTOCI that are recognized in other comprehensive income. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to retained earnings.

e. Treasury shares

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.

Treasury shares transactions for the six months ended June 30, 2017 were summarized as follows:

Purpose of Buyback	Treasury Shares Held as of January 1, 2017	Increase During the Period	Decrease During the Period	Treasury Shares Held as of June 30, 2017
Share capital held by subsidiaries	<u>7,518,364</u>	<u>-</u>	<u>-</u>	<u>7,518,364</u>

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
<u>June 30, 2017</u>			
Baystar Holdings Ltd.	7,518,364	<u>\$ 106,387</u>	<u>\$ 137,210</u>

f. Non-controlling interests

	<u>Six Months Ended June 30</u>	
	2018	2017
Balance at January 1 (IAS 39)	\$ 1,414,827	\$ 1,299,838
Adjustment on initial application of IFRS 9	<u>55,874</u>	<u>-</u>
Balance at January 1 (IFRS 9)	1,470,701	1,299,838
Share attributable to non-controlling interests		
Profit for the period	142,875	133,178
Exchange difference on translation of foreign financial statements	101	(8,204)
Unrealized gain arising on revaluation of available-for-sale financial assets	-	36,121
Unrealized loss arising on revaluation of financial assets at FVTOCI	(60,162)	-
Decrease in non-controlling interests	<u>(202,336)</u>	<u>(194,242)</u>
Balance at June 30	<u>\$ 1,351,179</u>	<u>\$ 1,266,691</u>

20. REVENUE

Please refer to Note 33 for the Group's revenue.

21. EMPLOYEE BENEFITS EXPENSE, DEPRECIATION, AND AMORTIZATION

	Three Months Ended June 30, 2018			
	Classified as Operating Costs	Classified as Operating Expenses	Classified as Non-operating Income and Losses	Total
Short-term employee benefits	\$ 839,693	\$ 1,490,346	\$ -	\$ 2,330,039
Post-employment benefits	\$ 32,724	\$ 72,193	\$ -	\$ 104,917
Depreciation	\$ 1,625,155	\$ 185,723	\$ 1,928	\$ 1,812,806
Amortization	\$ 8,324	\$ 13,000	\$ 3,505	\$ 24,829

	Three Months Ended June 30, 2017			
	Classified as Operating Costs	Classified as Operating Expenses	Classified as Non-operating Income and Losses	Total
Short-term employee benefits	\$ 763,618	\$ 1,213,454	\$ -	\$ 1,977,072
Post-employment benefits	\$ 30,586	\$ 69,362	\$ -	\$ 99,948
Depreciation	\$ 1,296,995	\$ 124,889	\$ 1,830	\$ 1,423,714
Amortization	\$ 8,323	\$ 15,440	\$ 3,505	\$ 27,268

	Six Months Ended June 30, 2018			
	Classified as Operating Costs	Classified as Operating Expenses	Classified as Non-operating Income and Losses	Total
Short-term employee benefits	\$ 1,679,658	\$ 2,821,568	\$ -	\$ 4,501,226
Post-employment benefits	\$ 65,083	\$ 144,571	\$ -	\$ 209,654
Depreciation	\$ 3,174,634	\$ 365,389	\$ 3,775	\$ 3,543,798
Amortization	\$ 16,647	\$ 25,924	\$ 7,010	\$ 49,581

	Six Months Ended June 30, 2017			
	Classified as Operating Costs	Classified as Operating Expenses	Classified as Non-operating Income and Losses	Total
Short-term employee benefits	\$ 1,430,678	\$ 2,299,495	\$ -	\$ 3,730,173
Post-employment benefits	\$ 60,981	\$ 138,107	\$ -	\$ 199,088
Depreciation	\$ 2,578,074	\$ 205,954	\$ 3,710	\$ 2,787,738
Amortization	\$ 16,647	\$ 30,877	\$ 7,010	\$ 54,534

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. For the three months ended June 30, 2018 and 2017 and the six months ended June 30, 2018 and 2017, the employees' compensation and remuneration of directors were as follows.

Accrual rate

	<u>Six Months Ended June 30</u>	
	<u>2018</u>	<u>2017</u>
Employees' compensation	2%	1%
Remuneration of directors	1%	1%

Amounts

	<u>Three Months Ended June 30</u>		<u>Six Months Ended June 30</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Employees' compensation	<u>\$ 54,676</u>	<u>\$ 13,242</u>	<u>\$ 94,170</u>	<u>\$ 21,547</u>
Remuneration of directors	<u>\$ 27,338</u>	<u>\$ 13,242</u>	<u>\$ 47,085</u>	<u>\$ 21,547</u>

If there is a change in the proposed amounts after the annual consolidated financial statements were authorized for issue, the differences are recorded as a change in accounting estimate.

The compensation to employees and remuneration to the directors of 2017 and 2016 were approved by the Company's board of directors on February 2, 2018 and February 3, 2017, respectively, were as below:

	<u>For the Year Ended December 31</u>	
	<u>2017</u>	<u>2016</u>
Employees' compensation	<u>\$ 67,881</u>	<u>\$ 34,400</u>
Remuneration of directors	<u>\$ 67,881</u>	<u>\$ 34,400</u>

There was no difference between the actual amounts of employees' compensation and remuneration of directors paid and the amounts recognized in the consolidated financial statements for the years ended December 31, 2017 and 2016.

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

22. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Income tax recognized in profit or loss

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

	<u>Three Months Ended June 30</u>		<u>Six Months Ended June 30</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Income tax expense from continuing operations at the statutory rate	\$ 615,525	\$ 285,683	\$ 1,033,711	\$ 455,012
Tax effect of adjustment item				
Permanent differences	(125,000)	(48,343)	(141,000)	(60,610)
Others	3,492	-	2,756	-
Additional income tax on unappropriated earnings	<u>68,146</u>	<u>122,806</u>	<u>68,146</u>	<u>122,806</u>
Current income tax	<u>562,163</u>	<u>360,146</u>	<u>963,613</u>	<u>517,208</u>

(Continued)

	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
Deferred income tax				
In respect of the current year	\$ (7,456)	\$ (2,359)	\$ 154,414	\$ (1,560)
Effect of tax rate changes	-	-	(203,824)	-
Adjustment for prior years' tax	<u>6,905</u>	<u>4,192</u>	<u>6,703</u>	<u>6,334</u>
Income tax expense recognized in profit or loss	<u>\$ 561,612</u>	<u>\$ 361,979</u>	<u>\$ 920,906</u>	<u>\$ 521,982</u> (Concluded)

The applicable tax rate used above for 2017 is the corporate tax rate of 17% payable by the Group in ROC, while the applicable tax rate used by subsidiaries in China is 25%. Tax rates used by other group entities operating in other jurisdictions are based on the tax laws in those jurisdictions.

The Income Tax Act in the ROC was amended in 2018 and the corporate income tax rate was adjusted from 17% to 20% effective in 2018. The effect of the change in tax rate on deferred tax income/expense to be recognized in profit or loss is recognized in full in the period in which the change in tax rate occurs. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to 5%.

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

23. EARNINGS PER SHARE

	Three Months Ended June 30					
	2018			2017		
	Amounts (Numerator) After Income Tax (Attributable to Owners of the Parent)	Shares (Denominator) (In Thousand)	Earnings Per Share (NT\$) After Income Tax (Attributable to Owners of the Parent)	Amounts (Numerator) After Income Tax (Attributable to Owners of the Parent)	Shares (Denominator) (In Thousand)	Earnings Per Share (NT\$) After Income Tax (Attributable to Owners of the Parent)
Basic earnings per share						
Net income attributed to common shareholders	\$ 2,155,382	3,980,000	<u>\$ 0.54</u>	\$ 989,909	3,572,482	<u>\$ 0.28</u>
Effect of dilutive potential common share						
Employees' compensation	-	2,804		-	726	
Diluted earnings per share						
Net income attributed to common shareholders	<u>\$ 2,155,382</u>	<u>3,982,804</u>	<u>\$ 0.54</u>	<u>\$ 989,909</u>	<u>3,573,208</u>	<u>\$ 0.28</u>

	Six Months Ended June 30					
	2018			2017		
	Amounts (Numerator)		Earnings Per Share (NT\$)	Amounts (Numerator)		Earnings Per Share (NT\$)
	After Income Tax		After Income Tax	After Income Tax		After Income Tax
	(Attributable to Owners of the Parent)	Shares (Denominator) (In Thousand)	(Attributable to Owners of the Parent)	(Attributable to Owners of the Parent)	Shares (Denominator) (In Thousand)	(Attributable to Owners of the Parent)
Basic earnings per share						
Net income attributed to common shareholders	\$ 3,727,649	3,980,000	<u>\$ 0.94</u>	\$ 1,676,825	3,572,482	<u>\$ 0.47</u>
Effect of dilutive potential common share						
Employees' compensation	-	4,829		-	2,263	
Diluted earnings per share						
Net income attributed to common shareholders	<u>\$ 3,727,649</u>	<u>3,984,829</u>	<u>\$ 0.94</u>	<u>\$ 1,676,825</u>	<u>3,574,745</u>	<u>\$ 0.47</u>

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.

24. NON-CASH TRANSACTIONS

	Six Months Ended June 30	
	2018	2017
Non-cash investing and financing activities		
Long-term borrowings, current portion	<u>\$ 3,923,520</u>	<u>\$ 3,556,850</u>
Exchange differences on translation of foreign financial statements	<u>\$ 46,945</u>	<u>\$ (105,108)</u>
Unrealized (losses) gains on available-for-sale financial assets	<u>\$ (5,107,003)</u>	<u>\$ 1,599,025</u>
Unrealized gains on financial assets at fair value through other comprehensive income	<u>\$ 8,724,128</u>	<u>\$ -</u>
Cash dividends payable in non-controlling interests	<u>\$ 202,336</u>	<u>\$ 194,242</u>
Cash dividends payables	<u>\$ 3,980,000</u>	<u>\$ 2,148,000</u>

25. OPERATING LEASE ARRANGEMENTS

The Group as Lessee

a. Lease arrangements

The Company and NTC leased lands from Science Park Administration, and the lease term will expire in 2037 and 2027, respectively, which can be extended after the expiration of the lease periods.

NTC leased a land from Taiwan Sugar Corporation. Under a twenty-year term from October 2014 to September 2034, which is allowed to extend after the expiration of lease. The chairman of NTC is a joint guarantor of such lease, refer to Note 28.

The Group leased some of the offices in the United States, China, Japan, Israel, India, and part in Taiwan, and the lease terms will expire between 2018 and 2023 which can be extended after the expiration of the lease periods.

As of June 30, 2018, December 31, 2017 and June 30, 2017, deposits paid under operating leases amounted to \$114,125 thousand, \$114,121 thousand and \$63,713 thousand, respectively (recorded as “other non-current assets”).

b. Prepayments for lease obligations

	June 30, 2018	December 31, 2017	June 30, 2017
Current (recorded as “other current assets”)	\$ 2,736	\$ 3,445	\$ 2,958
Non-current (recorded as “other non-current assets”)	<u>36,319</u>	<u>37,510</u>	<u>38,701</u>
	<u>\$ 39,055</u>	<u>\$ 40,955</u>	<u>\$ 41,659</u>

c. Lease expense

	<u>Three Months Ended June 30</u>		<u>Six Months Ended June 30</u>	
	2018	2017	2018	2017
Lease expenditure	<u>\$ 59,689</u>	<u>\$ 54,735</u>	<u>\$ 119,158</u>	<u>\$ 107,406</u>

The Group as Lessor

Operating lease agreements

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

As of June 30, 2018, December 31, 2017 and June 30, 2017, deposits received under operating leases amounted to \$2,195 thousand, \$2,181 thousand and \$1,857 thousand, respectively (recorded as “other non-current liabilities”).

26. CAPITAL MANAGEMENT

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

27. FINANCIAL INSTRUMENT

a. Fair value of financial instruments

1) Valuation techniques and assumptions used in fair value measurement

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

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

- Forward exchange contracts and foreign exchange swap contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.
- Domestic and overseas unlisted equity instrument at FVTOCI were all measured based on Level 3. Fair values of the above equity instruments were determined using comparable listed company approach, refer to strike price of similar business at active market, implied value multiple of the price and relevant information. Significant unobservable inputs included PE ratio, value multiple and market liquidity discount.

2) Fair value measurements recognized in the consolidated balance sheets

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

Fair value hierarchy as at December 31, 2017

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

Fair value hierarchy as at June 30, 2017

	Carrying Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
<u>Financial assets measured at cost</u>					
Equity securities					
Domestic emerging securities	\$ 493	\$ -	\$ 326	\$ -	\$ 326

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

Fair value hierarchy as at June 30, 2018

	Level 1	Level 2	Level 3	Total
<u>Financial assets at FVTOCI</u>				
Equity securities				
Domestic listed and emerging securities	\$ 10,019,028	\$ -	\$ -	\$ 10,019,028
Overseas listed securities	97,163	-	-	97,163
Domestic and overseas unlisted securities	-	17,650	676,039	693,689
	<u>\$ 10,116,191</u>	<u>\$ 17,650</u>	<u>\$ 676,039</u>	<u>\$ 10,809,880</u>
<u>Financial liabilities at FVTPL</u>				
Derivative financial liabilities (not under hedge accounting)	\$ -	\$ 114,680	\$ -	\$ 114,680

Fair value hierarchy as at December 31, 2017

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

Fair value hierarchy as at June 30, 2017

	Level 1	Level 2	Level 3	Total
<u>Available-for-sale financial assets</u>				
Equity securities				
Domestic listed securities	\$ 5,243,490	\$ -	\$ -	\$ 5,243,490
Overseas listed securities	164,444	-	-	164,444
	<u>\$ 5,407,934</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,407,934</u>
<u>Financial liabilities at FVTPL</u>				
Derivative financial liabilities (not under hedge accounting)	\$ -	\$ 39,289	\$ -	\$ 39,289

The emerging securities held by the Group were determined as active market, and were transferred from Level 2 to Level 1 this year.

b. Categories of financial instruments

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

	June 30, 2018		December 31, 2017		June 30, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Financial assets</u>						
Measured at amortized cost						
Cash and cash equivalents	\$ 9,344,952	\$ 9,344,952	\$ -	\$ -	\$ -	\$ -
Notes and accounts receivable (included related parties)	7,267,820	7,267,820	-	-	-	-
Other receivables	696,163	696,163	-	-	-	-
Refundable deposits (recorded in other non-current assets)	241,052	241,052	-	-	-	-
Loans and receivables						
Cash and cash equivalents	-	-	14,172,441	14,172,441	5,902,581	5,902,581
Notes and accounts receivable (included related parties)	-	-	6,741,036	6,741,036	6,224,908	6,224,908
Other receivables	-	-	654,836	654,836	519,566	519,566
Refundable deposits (recorded in other non-current assets)	-	-	230,519	230,519	170,290	170,290
Financial assets at fair value through profit or loss	-	-	32,745	32,745	-	-
Financial assets at fair value through other comprehensive income (current and non-current)	10,809,880	10,809,880	-	-	-	-
Available-for-sale financial assets (current and non-current)	-	-	6,792,551	6,792,551	5,407,934	5,407,934
Financial assets measured at cost	-	-	340,875	340,729	601,699	601,532
<u>Financial liabilities</u>						
Measured at amortized cost						
Short-term borrowings	-	-	553,539	553,539	750,000	750,000
Short-term bills payable	-	-	-	-	249,945	249,945
Notes and accounts payable (included related parties)	5,334,363	5,334,363	4,917,732	4,917,732	4,748,813	4,748,813
Dividends payable	3,980,000	3,980,000	-	-	2,148,000	2,148,000
Payable on equipment and other payables	5,508,008	5,508,008	7,002,708	7,002,708	6,086,107	6,086,107
Long-term borrowings (included current portion)	10,732,320	10,732,320	12,094,080	12,094,080	11,589,170	11,589,170
Long-term contract payable (recorded in other non-current liabilities)	-	-	10,551	10,551	10,785	10,785
Guarantee deposits (recorded in other non-current liabilities)	67,443	67,443	65,897	65,897	84,575	84,575
Financial liabilities at fair value through profit or loss	114,680	114,680	-	-	39,289	39,289

c. Financial risk management objectives and policies

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

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

1) Market risk

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

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

a) Foreign currency risk

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

The sensitivity analysis included only outstanding foreign currency denominated monetary items at the end of the reporting period and an increase in net income and equity if New Taiwan dollars strengthen by 1% against foreign currencies. For a 1% weakening of New Taiwan dollars against U.S. dollars, there would be impact on net income in the amounts of \$8,507 thousand, \$5,528 thousand, \$52,698 thousand and \$30,763 thousand increase for the three months ended June 30, 2018 and 2017, and the six months ended June 30, 2018 and 2017, respectively.

b) Interest rate risk

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

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

	June 30, 2018	December 31, 2017	June 30, 2017
Cash flow interest rate risk			
Financial assets	\$ 84,619	\$ 36,719	\$ 32,772
Financial liabilities	10,732,320	12,094,080	11,589,170

The sensitivity analyses below were determined based on the Group's exposure to interest rates for fair value of variable-rate derivatives instruments at the end of the reporting period. If interest rates had been higher by one percentage point, the Group's cash flows for the three months ended June 30, 2018 and 2017, and the six months ended June 30, 2018 and 2017 would have decreased by \$14,097 thousand, increased by \$18,021 thousand, increased by \$106,477 thousand and increased by \$115,564 thousand, respectively.

2) Credit risk

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

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

3) Liquidity risk

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

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

	June 30, 2018			
	Within 1 Year	1-2 Years	Over 2 Years	Total
Non-interest bearing	\$ 14,822,371	\$ 67,443	\$ -	\$ 14,889,814
Variable interest rate liabilities	<u>3,923,520</u>	<u>3,543,520</u>	<u>3,265,280</u>	<u>10,732,320</u>
	<u>\$ 18,745,891</u>	<u>\$ 3,610,963</u>	<u>\$ 3,265,280</u>	<u>\$ 25,622,134</u>
	December 31, 2017			
	Within 1 Year	1-2 Years	Over 2 Years	Total
Non-interest bearing	\$ 11,920,440	\$ 76,448	\$ -	\$ 11,996,888
Variable interest rate liabilities	3,323,520	4,563,520	4,207,040	12,094,080
Fixed interest rate liabilities	<u>553,539</u>	<u>-</u>	<u>-</u>	<u>553,539</u>
	<u>\$ 15,797,499</u>	<u>\$ 4,639,968</u>	<u>\$ 4,207,040</u>	<u>\$ 24,644,507</u>
	June 30, 2017			
	Within 1 Year	1-2 Years	Over 2 Years	Total
Non-interest bearing	\$ 12,982,920	\$ 95,360	\$ -	\$ 13,078,280
Variable interest rate liabilities	3,556,850	3,923,520	4,108,800	11,589,170
Fixed interest rate liabilities	<u>999,945</u>	<u>-</u>	<u>-</u>	<u>999,945</u>
	<u>\$ 17,539,715</u>	<u>\$ 4,018,880</u>	<u>\$ 4,108,800</u>	<u>\$ 25,667,395</u>

28. RELATED PARTY TRANSACTIONS

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

Related Party	Relationship with the Group
Walsin Lihwa Corporation	Investor that exercises significant influence over the Group
Nyquest Technology Co., Ltd.	Related party in substance
Walton Advanced Engineering Inc.	Related party in substance
Walton Advanced Engineering Ltd. (Suzhou)	Related party in substance
Global Brands Manufacture (Dongguan) Ltd.	Related party in substance
Chin Cherng Construction Co., Ltd.	Related party in substance
Walsin Technology Corporation	Related party in substance
Harbinger III Venture Capital Corp.	Related party in substance
Prosperity Dielectrics Co., Ltd.	Related party in substance
Hannstar Display Corporation	Related party in substance

b. Operating activities

	<u>Three Months Ended June 30</u>		<u>Six Months Ended June 30</u>	
	2018	2017	2018	2017
1) Operating revenue				
Related party in substance	\$ 74,109	\$ 77,364	\$ 127,449	\$ 131,765
2) Manufacturing expenses				
Related party in substance	\$ 817,729	\$ 583,914	\$ 1,526,433	\$ 1,143,686
3) General and administrative expenses				
Related party in substance	\$ 2,663	\$ 2,634	\$ 5,298	\$ 5,269
Investor that exercises significant influence over the Group	2,108	2,260	4,206	4,298
	<u>\$ 4,771</u>	<u>\$ 4,894</u>	<u>\$ 9,504</u>	<u>\$ 9,567</u>
4) Dividend income				
Investor that exercises significant influence over the Group				
Walsin Lihwa Corporation	\$ 200,000	\$ -	\$ 200,000	\$ -
Related party in substance	23,589	2,362	23,589	2,362
	<u>\$ 223,589</u>	<u>\$ 2,362</u>	<u>\$ 223,589</u>	<u>\$ 2,362</u>
5) Other income				
Related party in substance				
Walsin Technology Corporation	\$ 2,256	\$ 1,835	\$ 2,256	\$ 1,835
Others	434	596	434	596
	<u>\$ 2,690</u>	<u>\$ 2,431</u>	<u>\$ 2,690</u>	<u>\$ 2,431</u>
		June 30, 2018	December 31, 2017	June 30, 2017
6) Accounts receivable due from related parties				
Related party in substance		<u>\$ 54,457</u>	<u>\$ 33,546</u>	<u>\$ 52,780</u>
7) Accounts payable to related parties				
Related party in substance		<u>\$ 642,755</u>	<u>\$ 496,787</u>	<u>\$ 521,443</u>

(Continued)

	June 30, 2018	December 31, 2017	June 30, 2017
8) Other receivables			
Investor that exercises significant influence over the Group			
Walsin Lihwa Corporation	\$ 200,000	\$ -	\$ -
Related party in substance	<u>15,701</u>	<u>-</u>	<u>-</u>
	<u>\$ 215,701</u>	<u>\$ -</u>	<u>\$ -</u>
9) Other current assets			
Investor that exercises significant influence over the Group			
Related party in substance	\$ 238	\$ 1,172	\$ 367
	<u>-</u>	<u>-</u>	<u>651</u>
	<u>\$ 238</u>	<u>\$ 1,172</u>	<u>\$ 1,018</u>
10) Other payables			
Related party in substance	\$ 33,123	\$ 33,465	\$ 36,305
Investor that exercises significant influence over the Group	<u>2,446</u>	<u>1,464</u>	<u>1,430</u>
	<u>\$ 35,569</u>	<u>\$ 34,929</u>	<u>\$ 37,735</u>
11) Refundable deposits (recorded as “other non-current assets”)			
Related party in substance	\$ 1,722	\$ 1,722	\$ 1,722
Investor that exercises significant influence over the Group	<u>203</u>	<u>203</u>	<u>203</u>
	<u>\$ 1,925</u>	<u>\$ 1,925</u>	<u>\$ 1,925</u>

(Concluded)

The related party transactions were conducted under normal terms.

c. Guarantee

As of June 30, 2018, the chairman of NTC is a joint guarantor of the land-leasing from Taiwan Sugar Corporation. Refer to Note 25.

d. Compensation of key management personnel

	<u>Three Months Ended June 30</u>		<u>Six Months Ended June 30</u>	
	2018	2017	2018	2017
Short-term employment benefits	\$ 93,460	\$ 67,123	\$ 163,951	\$ 140,053
Post-employment benefits	<u>2,881</u>	<u>4,477</u>	<u>5,876</u>	<u>7,019</u>
	<u>\$ 96,341</u>	<u>\$ 71,600</u>	<u>\$ 169,827</u>	<u>\$ 147,072</u>

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

29. PLEDGED AND COLLATERALIZED ASSETS

Refer to Note 6 and Note 14.

30. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

- a. Amounts available under unused letters of credit as of June 30, 2018 were approximately US\$5,093 thousand, JPY1,449,250 thousand and EUR199 thousand.
- b. Signed construction contract

	Total Contract Price	Payment as of June 30, 2018
TASA Construction Corporation	<u>\$ 2,374,000</u>	<u>\$ 1,820,902</u>

31. SIGNIFICANT SUBSEQUENT EVENTS

On July 17, 2018, the Company issued seven-year secured corporate bonds in the amount of \$10,000,000 thousand for the need of capital expenditure, repayment of bank borrowings and replenishment of working capital. The issuance was approved by the Taipei Exchange (TPEX) and the proceeds were collected in full.

32. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

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

	June 30, 2018			December 31, 2017			June 30, 2017		
	Foreign Currencies (Thousand)	Exchange Rate (Note 1)	New Taiwan Dollars (Thousand)	Foreign Currencies (Thousand)	Exchange Rate (Note 1)	New Taiwan Dollars (Thousand)	Foreign Currencies (Thousand)	Exchange Rate (Note 1)	New Taiwan Dollars (Thousand)
Financial assets									
Monetary items									
USD	\$ 274,697	30.46	\$ 8,367,264	\$ 245,041	29.76	\$ 7,292,424	\$ 230,421	30.42	\$ 7,009,406
USD	25,165	110.60	766,533	22,714	112.64	675,963	21,019	112.00	639,398
		(Note 2)			(Note 2)			(Note 2)	
EUR	1,984	35.40	70,239	1,686	35.57	59,968	3,062	34.72	106,310
JPY	2,250,435	0.2754	619,770	2,536,125	0.2642	670,044	3,174,608	0.2716	862,223
RMB	24,462	4.593	112,353	94,642	4.565	432,041	58,266	4.486	261,381
ILS	13,014	8.3431	108,581	11,707	8.5791	100,433	17,030	8.7039	148,225
Non-monetary items									
USD	7,384	30.46	224,922	6,266	29.76	186,483	13,759	30.42	418,555
Financial liabilities									
Monetary items									
USD	101,218	30.46	3,083,090	150,588	29.76	4,481,508	128,832	30.42	3,919,066
USD	14,965	110.60	455,830	15,099	112.64	449,348	13,172	112.00	400,681
		(Note 2)			(Note 2)			(Note 2)	
EUR	3,344	35.40	118,388	18,375	35.57	653,583	3,126	34.72	108,538
JPY	2,905,170	0.2754	800,084	3,263,776	0.2642	862,290	2,843,654	0.2716	772,336
ILS	15,982	8.3431	133,337	14,522	8.5791	124,582	13,975	8.7039	121,640

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

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

For the three months ended June 30, 2018 and 2017, and the six months ended June 30, 2018 and 2017, realized and unrealized net foreign exchange gain (loss) were gain of \$291,086 thousand, gain of \$22,729 thousand, gain of \$200,019 thousand and loss of \$180,879 thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the group entities.

33. SEGMENT INFORMATION

a. Basic information about operating segment

1) Classification of operating segments

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

a) Segment of DRAM IC product

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

b) Segment of Flash Memory product

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

c) Segment of Logic IC product

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

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

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

b. Segment revenues and operating results

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

	Segment Revenue		Segment Profit and Loss	
	Six Months Ended June 30	Six Months Ended June 30	Six Months Ended June 30	Six Months Ended June 30
	2018	2017	2018	2017
DRAM IC product	\$ 10,845,067	\$ 9,907,789	\$ 2,137,702	\$ 1,896,231
Flash Memory product	9,916,141	7,463,984	3,065,340	1,042,191
Logic IC product	<u>4,879,752</u>	<u>4,463,887</u>	<u>721,048</u>	<u>699,626</u>
Total of segment revenue	25,640,960	21,835,660	5,924,090	3,638,048
Other revenue	<u>446</u>	<u>580</u>	446	580
Operating revenue	<u>\$ 25,641,406</u>	<u>\$ 21,836,240</u>		
Unallocated expenditure				
Administrative and supporting expense			(866,779)	(686,946)
Sales and other common expenses			<u>(571,945)</u>	<u>(628,833)</u>
Income from operations			<u>4,485,812</u>	<u>2,322,849</u>
Non-operating income and expenses				
Interest income			34,112	17,106
Dividend income			281,991	56,117
Other income			19,181	46,545
Gains on disposal of property, plant and equipment			960	750
Gains on disposal of investments			-	2,688
Foreign exchange gains (losses)			200,019	(180,879)
Share of profit of associates accounted for using equity method			94,143	14
Interest expense			(77,947)	(23,552)
Other expenses			(25,592)	(49,322)
(Losses) gains on financial instruments at fair value through profit or loss			(221,249)	149,669
Impairment loss on financial assets			<u>-</u>	<u>(10,000)</u>
Profit before income tax			<u>\$ 4,791,430</u>	<u>\$ 2,331,985</u>