

Winbond Electronics Corporation and Subsidiaries

**Consolidated Financial Statements for the
Years Ended December 31, 2016 and 2015 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Winbond Electronics Corporation

Opinion

We have audited the accompanying consolidated financial statements of Winbond Electronics Corporation (the Company) and its subsidiaries (collectively referred as the Group), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of the most significance in our audit of the consolidated financial statements for the year ended December 31, 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of Accounts Receivable

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

Accounting policies for accounts receivable are set out within Note 4 of the consolidated financial statements. Refer to Note 10 of the consolidated financial statements for disclosures of the carrying amounts of accounts receivable.

Our audit procedures in response to impairment of accounts receivable consisted of the following, evaluated the rationale of classification and provision rates used on aging report of accounts receivable prepared by management, examined the calculation of the aging report, compared the aging distribution and actual write-offs of accounts receivable of current year with those of prior year, assessed the collectability of outstanding balances of accounts receivable by checking cash collection after balance sheet date, inspected the authorization of customer credit line and reviewed transaction records of ledger book to ensure the validity of internal control of accounts receivable.

Valuation of Inventory

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

The accounting policy for the valuation of inventory is set out within Note 4 of the consolidated financial statements. Refer to Note 12 of the consolidated financial statements for details of the inventory provisions and obsolescence.

Our audit procedures in response to inventory valuation included:

1. Performed test of details of inventory ledger to verify proper cost allocation of materials, labor costs and overheads to inventory items and ensure no understatement impairment loss caused by improper cost allocation.
2. Tested the aging report of inventory, compared the inventory provision policy of current year with prior year to analyze the differences, verified the numbers and forecast data used to calculate impairment loss of inventory, compared provisioned loss with actual inventory write-offs, and evaluated the fundamental hypothesis of forecast data to assess the validity of inventory provision policy.
3. Selected samples of inventory items and compared the latest actual selling prices with the book values to ensure inventory been stated at lower of cost and net realization value.
4. Compared the year-end quantity of inventory items with the inventory count reports to confirm the existence and completeness of the inventory. Moreover, by attending year-end inventory counting, we assessed the condition of inventory and evaluated the adequacy of inventory provisions for obsolete and damaged goods.

Other Matter

We have also audited the parent company only financial statements of the Company as of and for the years ended December 31, 2016 and 2015 on which we have issued an unmodified opinion.

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

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2016 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Deloitte & Touche
Taipei, Taiwan
Republic of China

February 3, 2017

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

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

WINBOND ELECTRONICS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars)

ASSETS	2016		2015	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	\$ 7,683,817	11	\$ 6,396,615	10
Current financial assets at fair value through profit or loss (Notes 4 and 7)	5,559	-	-	-
Current available-for-sale financial assets (Notes 4 and 8)	4,486,893	7	2,500,550	4
Current held-to-maturity financial assets (Notes 4 and 9)	-	-	99,900	-
Notes and accounts receivable, net (Notes 4 and 10)	5,756,815	8	5,184,287	8
Accounts receivable due from related parties, net (Note 27)	49,531	-	80,915	-
Other receivables (Notes 6 and 11)	518,048	1	794,939	1
Inventories (Notes 4 and 12)	7,536,161	11	8,535,835	14
Other current assets	<u>1,222,919</u>	<u>2</u>	<u>1,119,716</u>	<u>2</u>
Total current assets	<u>27,259,743</u>	<u>40</u>	<u>24,712,757</u>	<u>39</u>
NON-CURRENT ASSETS				
Non-current available-for-sale financial assets (Notes 4 and 8)	146,913	-	-	-
Non-current financial assets measured at cost (Notes 4 and 13)	611,699	1	727,786	1
Investments accounted for using equity method (Notes 4 and 14)	2,654,477	4	1,724,898	3
Property, plant and equipment (Notes 4 and 15)	34,372,537	51	31,915,030	51
Investment properties (Notes 4 and 16)	61,673	-	71,866	-
Intangible assets (Notes 4 and 17)	285,304	-	270,926	-
Deferred income tax assets (Notes 4 and 22)	2,353,422	4	2,853,873	5
Other non-current assets (Notes 6 and 11)	<u>243,727</u>	<u>-</u>	<u>320,631</u>	<u>1</u>
Total non-current assets	<u>40,729,752</u>	<u>60</u>	<u>37,885,010</u>	<u>61</u>
TOTAL	<u>\$ 67,989,495</u>	<u>100</u>	<u>\$ 62,597,767</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Current financial liabilities at fair value through profit or loss (Notes 4 and 7)	\$ 47,288	-	\$ 22,427	-
Notes and accounts payable	4,209,720	6	3,846,484	6
Accounts payable to related parties (Note 27)	472,489	1	707,064	1
Payables on machinery and equipment	3,826,462	6	811,277	2
Other payables	2,786,505	4	2,455,022	4
Long-term borrowings, current portion (Note 18)	3,090,180	4	4,352,267	7
Other current liabilities	<u>173,091</u>	<u>-</u>	<u>138,654</u>	<u>-</u>
Total current liabilities	<u>14,605,735</u>	<u>21</u>	<u>12,333,195</u>	<u>20</u>
NON-CURRENT LIABILITIES				
Long-term borrowings (Note 18)	6,638,273	10	8,755,160	14
Net defined benefit liabilities, non-current (Notes 4 and 19)	1,062,706	1	1,025,969	2
Other non-current liabilities	<u>461,982</u>	<u>1</u>	<u>384,904</u>	<u>-</u>
Total non-current liabilities	<u>8,162,961</u>	<u>12</u>	<u>10,166,033</u>	<u>16</u>
Total liabilities	<u>22,768,696</u>	<u>33</u>	<u>22,499,228</u>	<u>36</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT (Note 20)				
Common stock	35,800,002	53	35,800,002	57
Capital surplus	2,471,044	3	2,470,292	4
Retained earnings				
Legal reserve	208,606	-	-	-
Special reserve	1,395,063	2	-	-
Unappropriated earnings	2,952,901	5	2,086,060	3
Exchange differences on translation of foreign financial statements	23,433	-	88,771	-
Unrealized gains (losses) on available-for-sale financial assets	1,176,299	2	(1,436,767)	(2)
Treasury shares	<u>(106,387)</u>	<u>-</u>	<u>(106,387)</u>	<u>-</u>
Total equity attributable to owners of the parent	43,920,961	65	38,901,971	62
NON-CONTROLLING INTERESTS	<u>1,299,838</u>	<u>2</u>	<u>1,196,568</u>	<u>2</u>
Total equity	<u>45,220,799</u>	<u>67</u>	<u>40,098,539</u>	<u>64</u>
TOTAL	<u>\$ 67,989,495</u>	<u>100</u>	<u>\$ 62,597,767</u>	<u>100</u>

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

WINBOND ELECTRONICS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2016		2015	
	Amount	%	Amount	%
OPERATING REVENUE	\$ 42,091,709	100	\$ 38,350,315	100
OPERATING COST (Note 12)	<u>30,073,937</u>	<u>71</u>	<u>26,528,662</u>	<u>69</u>
GROSS PROFIT	<u>12,017,772</u>	<u>29</u>	<u>11,821,653</u>	<u>31</u>
OPERATING EXPENSES				
Selling expenses	1,243,513	3	1,193,005	3
General and administrative expenses	1,308,571	3	1,257,611	3
Research and development expenses	<u>5,752,732</u>	<u>14</u>	<u>5,262,111</u>	<u>14</u>
Total operating expenses	<u>8,304,816</u>	<u>20</u>	<u>7,712,727</u>	<u>20</u>
INCOME FROM OPERATIONS	<u>3,712,956</u>	<u>9</u>	<u>4,108,926</u>	<u>11</u>
NON-OPERATING INCOME AND EXPENSES				
Interest income	175,417	-	173,461	1
Dividend income	126,790	-	124,449	-
Other income	38,495	-	53,143	-
Gains (losses) on financial instruments at fair value through profit or loss	55,725	-	(121,027)	-
Share of profit of associates accounted for using equity method (Note 14)	12,384	-	21,884	-
Interest expenses	(187,010)	-	(263,751)	(1)
Other expenses	(33,008)	-	(35,172)	-
Losses on disposal of property, plant and equipment	(4,520)	-	(8,341)	-
(Losses) gains on disposal of investments	(1,811)	-	32,047	-
Foreign exchange (losses) gains	(94,713)	-	162,565	-
Impairment loss on financial assets (Note 13)	(30,000)	-	-	-
Impairment loss on property, plant and equipment (Note 15)	<u>(16,085)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total non-operating income and expenses	<u>41,664</u>	<u>-</u>	<u>139,258</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	3,754,620	9	4,248,184	11
INCOME TAX EXPENSE (Notes 4 and 22)	<u>614,546</u>	<u>2</u>	<u>775,311</u>	<u>2</u>
NET PROFIT	<u>3,140,074</u>	<u>7</u>	<u>3,472,873</u>	<u>9</u>

(Continued)

WINBOND ELECTRONICS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2016		2015	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME				
Components of other comprehensive income that will not be reclassified to profit or loss:				
Losses on remeasurement of defined benefit plans (Note 19)	\$ (82,556)	-	\$ (97,066)	-
Components of other comprehensive income that will be reclassified to profit or loss:				
Exchange differences on translation of foreign financial statements	(77,894)	-	72,285	-
Unrealized gains (losses) on available-for-sale financial assets	1,728,371	4	(1,016,229)	(3)
Share of the other comprehensive income (loss) of associates accounted for using equity method	<u>917,195</u>	<u>2</u>	<u>(713,373)</u>	<u>(2)</u>
Other comprehensive income (loss)	<u>2,485,116</u>	<u>6</u>	<u>(1,754,383)</u>	<u>(5)</u>
TOTAL COMPREHENSIVE INCOME	<u>\$ 5,625,190</u>	<u>13</u>	<u>\$ 1,718,490</u>	<u>4</u>
NET PROFIT ATTRIBUTABLE TO:				
Owners of the parent	\$ 2,897,791	7	\$ 3,291,251	9
Non-controlling interests	<u>242,283</u>	<u>-</u>	<u>181,622</u>	<u>-</u>
	<u>\$ 3,140,074</u>	<u>7</u>	<u>\$ 3,472,873</u>	<u>9</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the parent	\$ 5,376,238	13	\$ 1,541,648	4
Non-controlling interests	<u>248,952</u>	<u>-</u>	<u>176,842</u>	<u>-</u>
	<u>\$ 5,625,190</u>	<u>13</u>	<u>\$ 1,718,490</u>	<u>4</u>
EARNINGS PER SHARE (Note 23)				
Basic	<u>\$ 0.81</u>		<u>\$ 0.90</u>	
Diluted	<u>\$ 0.81</u>		<u>\$ 0.90</u>	

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

(Concluded)

WINBOND ELECTRONICS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Parent										
	Retained Earnings					Other Equity		Treasury Shares	Total	Non-controlling Interests	Total Equity
						Exchange Differences on Translation of Foreign Financial Statements	Unrealized Gains (Losses) on Available-for-sale Financial Assets				
	Common Stock	Capital Surplus	Legal Reserve	Special Reserve	(Accumulated Deficits) Unappropriated Earnings						
BALANCE, JANUARY 1, 2015	\$ 36,949,822	\$ 2,143,393	\$ -	\$ -	\$ (1,119,684)	\$ 23,265	\$ 292,835	\$ (106,387)	\$ 38,183,244	\$ 1,116,847	\$ 39,300,091
Net profit for 2015	-	-	-	-	3,291,251	-	-	-	3,291,251	181,622	3,472,873
Other comprehensive income for 2015	-	-	-	-	(85,507)	65,506	(1,729,602)	-	(1,749,603)	(4,780)	(1,754,383)
Total comprehensive income for 2015	-	-	-	-	3,205,744	65,506	(1,729,602)	-	1,541,648	176,842	1,718,490
Acquisition of treasury share	-	-	-	-	-	-	-	(822,921)	(822,921)	-	(822,921)
Retirement of treasury share	(1,149,820)	326,899	-	-	-	-	-	822,921	-	-	-
Decrease in non-controlling interests	-	-	-	-	-	-	-	-	-	(97,121)	(97,121)
BALANCE, DECEMBER 31, 2015	35,800,002	2,470,292	-	-	2,086,060	88,771	(1,436,767)	(106,387)	38,901,971	1,196,568	40,098,539
Appropriation of 2015 earnings											
Legal reserve	-	-	208,606	-	(208,606)	-	-	-	-	-	-
Special reserve	-	-	-	1,395,063	(1,395,063)	-	-	-	-	-	-
Cash dividends	-	-	-	-	(358,000)	-	-	-	(358,000)	-	(358,000)
Total appropriations	-	-	208,606	1,395,063	(1,961,669)	-	-	-	(358,000)	-	(358,000)
Net profit for 2016	-	-	-	-	2,897,791	-	-	-	2,897,791	242,283	3,140,074
Other comprehensive income for 2016	-	-	-	-	(69,281)	(65,338)	2,613,066	-	2,478,447	6,669	2,485,116
Total comprehensive income for 2016	-	-	-	-	2,828,510	(65,338)	2,613,066	-	5,376,238	248,952	5,625,190
Adjustments of capital surplus for company's cash dividends received by subsidiaries	-	752	-	-	-	-	-	-	752	-	752
Decrease in non-controlling interests	-	-	-	-	-	-	-	-	-	(145,682)	(145,682)
BALANCE, DECEMBER 31, 2016	<u>\$ 35,800,002</u>	<u>\$ 2,471,044</u>	<u>\$ 208,606</u>	<u>\$ 1,395,063</u>	<u>\$ 2,952,901</u>	<u>\$ 23,433</u>	<u>\$ 1,176,299</u>	<u>\$ (106,387)</u>	<u>\$ 43,920,961</u>	<u>\$ 1,299,838</u>	<u>\$ 45,220,799</u>

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

WINBOND ELECTRONICS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 3,754,620	\$ 4,248,184
Adjustments for:		
Depreciation expense	5,570,860	5,755,004
Amortization expense	99,669	101,995
Provision for allowance for doubtful accounts	4,932	1,698
(Reversal of) provision for decline in market value and obsolescence and abandonment of inventories	(44,645)	141,831
Net loss on financial assets and liabilities at fair value through profit or loss	19,302	5,532
Interest expense	187,010	263,751
Interest income	(175,417)	(173,461)
Dividend income	(126,790)	(124,449)
Share of profit of associates accounted for using equity method	(12,384)	(21,884)
Loss on disposal of property, plant and equipment	4,520	8,341
Impairment loss on financial assets	30,000	-
Impairment loss on non-financial assets	16,111	-
Loss (gain) on disposal of investments	1,811	(32,047)
Changes in operating assets and liabilities		
(Increase) decrease in notes and accounts receivable	(576,408)	245,974
Decrease in accounts receivable due from related parties	31,384	4,319
Increase in other receivables	(45,677)	(202,610)
Decrease (increase) in inventories	1,044,319	(2,360,730)
Increase in other current assets	(103,203)	(166,897)
Decrease (increase) in other non-current assets	37	(13,524)
Increase in notes and accounts payable	366,754	23,402
(Decrease) increase in accounts payable to related parties	(234,575)	64,500
Increase in other payables	355,737	204,975
Increase in other current liabilities	34,437	17,818
Increase (decrease) in other non-current liabilities	43,305	(2,833)
Cash inflow generated from operations	10,245,709	7,988,889
Interest received	34,907	46,855
Dividends received	126,790	124,449
Interest paid	(238,139)	(330,970)
Income taxes paid	(177,843)	(170,700)
Net cash flows from operating activities	9,991,424	7,658,523
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale financial assets	(504,432)	(686,329)
Proceeds from disposal of available-for-sale financial assets	146,565	80,433
Proceeds from capital reduction of available-for-sale financial assets	7,913	23,187
Acquisition of financial assets measured at cost	-	(40,000)
Proceeds from disposal of financial assets measured at cost	8,243	-
Proceeds from repayment of held-to-maturity financial assets	101,100	-

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WINBOND ELECTRONICS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars)

	2016	2015
Proceeds from capital reduction of financial assets measured at cost	\$ 18,017	\$ 31,592
Acquisitions of property, plant and equipment	(4,988,580)	(4,093,513)
Proceeds from disposal of property, plant and equipment	1,121	3,835
Acquisition of intangible assets	(111,444)	(49,576)
Decrease in financial lease receivables	<u>574,353</u>	<u>299,817</u>
Net cash used in investing activities	<u>(4,747,144)</u>	<u>(4,430,554)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term borrowings	-	(390,213)
Proceeds in long-term borrowings	1,000,000	3,460,710
Repayments of long-term borrowings	(4,352,267)	(6,017,973)
Payments to acquire treasury shares	-	(822,921)
Increase in non-controlling interests	(158,238)	(90,342)
Cash dividends paid	(357,248)	-
Other financing activities	<u>(38,600)</u>	<u>-</u>
Net cash used in financing activities	<u>(3,906,353)</u>	<u>(3,860,739)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		
	<u>(50,725)</u>	<u>53,871</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,287,202	(578,899)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>6,396,615</u>	<u>6,975,514</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 7,683,817</u>	<u>\$ 6,396,615</u>

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

(Concluded)

WINBOND ELECTRONICS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

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

The Company’s shares have been listed on the Taiwan Stock Exchange since October 18, 1995. Walsin Lihwa is a major shareholder of the Company and held approximately 23% ownership interest in the Company as of December 31, 2016 and 2015.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors on February 3, 2017.

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

- a. 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 by the Financial Supervisory Commission (FSC) for application starting from 2017

Rule No. 1050050021 and Rule No. 1050026834 issued by the FSC stipulated that starting January 1, 2017, the Group should apply the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS, IAS, IFRIC and SIC (collectively, the “IFRSs”) issued by the International Accounting Standards Board (IASB) and endorsed by the FSC for application starting from 2017.

New, Amended or Revised Standards and Interpretations	Effective Date Issued by IASB (Note 1)
Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 or transactions on or after July 1, 2014
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016 (Note 2)
Amendments to IFRS 10, IFRS 12 and IAS 28 “Investment Entities: Applying the Consolidation Exception”	January 1, 2016
Amendment to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations”	January 1, 2016
IFRS 14 “Regulatory Deferral Accounts”	January 1, 2016
Amendment to IAS 1 “Disclosure Initiative”	January 1, 2016
Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”	January 1, 2016
Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”	January 1, 2016

(Continued)

New, Amended or Revised Standards and Interpretations	Effective Date Issued by IASB (Note 1)
Amendment to IAS 19 “Defined Benefit Plans: Employee Contributions”	July 1, 2014
Amendment to IAS 27 “Equity Method in Separate Financial Statements”	January 1, 2016
Amendment to IAS 36 “Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets”	January 1, 2014
Amendment to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”	January 1, 2014
IFRIC 21 “Levies”	January 1, 2014
	(Concluded)

Note 1: Unless stated otherwise, the above New, Amended or Revised Standards and Interpretations are effective for annual periods beginning on or after their respective effective dates.

Note 2: The amendment to IFRS 5 is applied prospectively to changes in method of disposal that occur in annual periods beginning on or after January 1, 2016; the remaining amendments are effective for annual periods beginning on or after January 1, 2016.

Except for the following, the initial application of the above IFRSs in 2017 and related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers does not have any material impact on the Group’s accounting policies:

- 1) Amendment to IAS 36 “Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets”

IAS 36 was amended to clarify that the recoverable amount of an asset or a cash-generating unit is disclosed only when an impairment loss on the asset has been recognized or reversed during the period. Furthermore, the discount rate used is disclosed if such fair value less costs of disposal is measured by using the present value technique. The amendment will be applied retrospectively.

- 2) Annual Improvements to IFRSs 2011-2013 Cycle

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

- 3) Annual Improvements to IFRSs 2012-2014 Cycle

IAS 19 was amended to clarify that the depth of the market for high quality corporate bonds used to estimate the discount rate for post-employment benefits should be assessed by the market of the corporate bonds denominated in the same currency as the benefits to be paid, i.e. assessed at currency level (instead of country or regional level). The amendment will be applied from January 1, 2016, and any adjustment arising from the initial application of the amendment will be recognized in net defined benefit liabilities, deferred tax asset and retained earnings.

There is no anticipated material impact of retrospective application of the above amendments starting from 2017.

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

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed by the FSC for application starting from 2017. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include an emphasis on certain recognition and measurement considerations and additional requirements for disclosures of related party transactions and goodwill.

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

Except for the above impacts, as of the date the consolidated financial statements were authorized for issue, the Group continues assessing other possible impacts that application of the aforementioned IFRSs amendments starting from 2017 and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers will have on the Group's financial position and financial performance, and will disclose these other impacts when the assessment is completed.

b. The IFRSs issued but not yet endorsed by the FSC

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

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

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

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

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

1) IFRS 9 “Financial Instruments”

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

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

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

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

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

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

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

3) 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 at 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 shall apply IFRIC 22 either retrospectively or prospectively to all assets, expenses and income in the scope of the Interpretation initially recognized on or after (a) the beginning of the reporting period in which the entity first applies IFRIC 22, or (b) the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies IFRIC 22.

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 conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed and issued by the FSC.

Basis of Preparation

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

Basis of Consolidation

a. Principles for preparing consolidated financial statements

The consolidated financial statements 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 December 31	
			2016	2015
The Company	Winbond Int'l Corporation ("WIC")	Investment holding	100	100
WIC	Winbond Electronics Corp. America ("WECA")	Design, sales and after-sales service of semiconductor	100	100
The Company	Landmark Group Holdings Ltd. ("Landmark")	Investment holding	100	100
Landmark	Winbond Electronics Corp. Japan ("WECA")	Research, development, sales and after-sales service of semiconductor	100	100
Landmark	Peaceful River Corp. ("PRC")	Investment holding	100	100
The Company	Winbond Electronics (HK) Limited ("WEHK")	Sale of semiconductor	100	100
The Company	Pine Capital Investment Limited ("PCI")	Investment holding	100	100
PCI	Winbond Electronics (Suzhou) Limited ("WECA")	Design, development and marketing of VLSI integrated ICs	100	100
The Company	Mobile Magic Design Corporation ("MMD")	Design, development and marketing of Pseudo SRAM	100	100
The Company	Winbond Technology LTD ("WTL")	Design and service of semiconductor	100	100
The Company	Newfound Asian Corp. ("NAC")	Investment holding	100	100
NAC	Baystar Holdings Ltd. ("BHL")	Investment holding	100	100
The Company	Nuvoton Technology Corporation ("NTC")	Research, development, design, manufacture and marketing of Logic IC, 6 inch wafer product, test, and OEM	61	61
The Company	Techdesign Corporation ("TDC") (Note)	Electronic commerce and product marketing	100	-
NTC	Marketplace Management Ltd. ("MML")	Investment holding	100	100
MML	Goldbond LLC ("GLLC")	Investment holding	100	100
GLLC	Nuvoton Electronics Technology (Shanghai) Limited ("NTSH")	Provide project of sale in China and repair, test and consult of software	100	100
GLLC	Winbond Electronics (Nanjing) Ltd. ("WENJ")	Computer software service (except I.C. design)	100	100
NTC	Pigeon Creek Holding Co., Ltd. ("PCH")	Investment holding	100	100
PCH	Nuvoton Technology Corp. America ("NTCA")	Design, sales and after-sales service of semiconductor	100	100
NTC	Nuvoton Investment Holding Ltd. ("NIH")	Investment holding	100	100
NIH	Nuvoton Technology Israel Ltd. ("NTIL")	Design and service of semiconductor	100	100
NTC	Nuvoton Electronics Technology (H.K.) Limited ("NTHK")	Sales of semiconductor	100	100
NTHK	Nuvoton Electronics Technology (Shenzhen) Limited ("NTSZ")	Computer software service (except I.C. design), wholesale business for computer, supplement and software	100	100
NTC	Song Yong Investment Corporation ("SYI")	Investment holding	100	100
NTC	Nuvoton Technology India Private Limited ("NTIPL")	Design, sales and service of semiconductor	100	100
NTC	Techdesign Corporation ("TDC") (Note)	Electronic commerce and product marketing	-	100

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

Classification of Current and Non-current Assets and Liabilities

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

Foreign Currencies

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

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

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

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

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

Cash Equivalents

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

Financial Instruments

a. Financial assets

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

The categories of financial assets held by the Group are financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity 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) Held-to-maturity financial assets

Bonds which have a specific credit rating and the Group has positive intent and ability to hold to maturity are classified as held-to-maturity financial assets.

Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method less any impairment.

4) Loans and receivables

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

b. Impairment of financial assets

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

Financial assets carried at amortized cost, such as accounts receivable and held-to-maturity financial assets are assessed for impairment. 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 uncollectible, the amount is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

c. Derecognition of financial assets

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

d. Financial liabilities

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

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

e. Derecognition of financial liabilities

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

f. Derivative financial instruments

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

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

g. Information about fair value of financial instruments

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

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

Inventories

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

Investments in Associates

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

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

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

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

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

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

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

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

Property, Plant and Equipment

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

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

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

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

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

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

Investment Properties

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

carrying amount of the asset and is included in profit or loss in the period in which the property is derecognized.

Intangible Assets

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

Impairment of Tangible and Intangible Assets

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

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

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

Provisions

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

Revenue Recognition

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

Leasing

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

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

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

recognized as an expense on a straight-line basis over the lease term. Contingent rents payable arising under operating leases are recognized as an expense in the period in which they are incurred.

Borrowing Costs

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

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

Employee Benefits

a. Short-term employee benefits

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

b. Retirement benefits

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

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

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

c. Other long-term employee benefits

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

Taxation

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

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 liability is settled or the asset 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 accounts receivable

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

6. CASH AND CASH EQUIVALENTS

	December 31	
	2016	2015
Cash on hand	\$ 745	\$ 729
Cash and deposits in banks	7,128,620	5,636,579
Repurchase agreements collateralized by bonds	<u>554,452</u>	<u>759,307</u>
	<u>\$ 7,683,817</u>	<u>\$ 6,396,615</u>

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

	December 31	
	2016	2015
Time deposits	<u>\$ 140,621</u>	<u>\$ 138,225</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:

	December 31	
	2016	2015
Time deposits	<u>\$ 213,553</u>	<u>\$ 199,930</u>

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2016	2015
<u>Financial liabilities at FVTPA - current</u>		
Derivative financial liabilities (not under hedge accounting)		
Foreign exchange swap contracts	<u>\$ 5,559</u>	<u>\$ -</u>
<u>Financial liabilities at FVTPL - current</u>		
Derivative financial liabilities (not under hedge accounting)		
Forward exchange contracts	<u>\$ 47,288</u>	<u>\$ 22,427</u>

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

	Currencies	Maturity Date	Contract Amount (In Thousands)
<u>December 31, 2016</u>			
Sell forward exchange contracts	USD to NTD	2017.01.06-2017.02.17	USD101,000/NTD3,209,844
Sell forward exchange contracts	RMB to NTD	2017.01.13-2017.02.17	RMB30,000/NTD137,743
Foreign exchange swap contracts	EUR to NTD	2017.01.26-2017.02.24	EUR5,665/NTD197,931

December 31, 2015

Sell forward exchange contracts	USD to NTD	2016.01.05-2016.02.26	USD99,000/NTD3,236,233
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The Group entered into derivative financial instruments contracts to manage exposures to exchange rate fluctuations of foreign currency denominated assets and liabilities. These derivative financial instruments contracts did not meet the criteria of hedge effectiveness, therefore, they were not accounted for by hedge accounting.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2016	2015
Listed stocks and exchange traded funds		
Walsin Lihwa Corporation	\$ 2,370,000	\$ 1,174,400
Hannstar Display Corporation	975,168	482,621
Walton Advanced Engineering Inc.	585,733	454,068
Walsin Technology Corporation	345,009	209,968
Vanguard Short-Term Corporate Bond ETF	158,700	32,411
Nyquest Technology Co., Ltd.	146,913	-
CIFM Money Market Fund Class B	24,873	26,307
Wal-Mart Stores, Inc.	15,604	-
Telit Communications PLC	11,806	-
Yuanta/P-Shares Taiwan Top 50 ETF	-	17,618
CTBC Financial Holding Co., Ltd.	-	56,834
Cathay Financial Holding Co., Ltd.	-	46,323
Available-for-sale financial assets	<u>\$ 4,633,806</u>	<u>\$ 2,500,550</u>
Current	\$ 4,486,893	\$ 2,500,550
Non-current	<u>146,913</u>	<u>-</u>
	<u>\$ 4,633,806</u>	<u>\$ 2,500,550</u>

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

9. CURRENT HELD-TO-MATURITY FINANCIAL ASSETS

	December 31	
	2016	2015
CTBC Bank Co., Ltd. 1 st Unsecured Financial Debentures in 2013	<u>\$ -</u>	<u>\$ 99,900</u>

On March 12, 2013, the Company bought 3-year financial bonds issued by CTBC Bank Co., Ltd. with coupon rates and an effective interest rates of 2.9%, at par values of RMB20,000 thousand.

As of December 31, 2016, all of the CTBC Bank Co., Ltd. 1st Unsecured Financial Debentures in 2013 held by the Company have been due for repayment.

10. NOTES AND ACCOUNTS RECEIVABLE

	December 31	
	2016	2015
Notes receivable	\$ 72	\$ 671
Accounts receivable	5,889,047	5,312,040
Less: Allowance for doubtful accounts	<u>(132,304)</u>	<u>(128,424)</u>
	<u>\$ 5,756,815</u>	<u>\$ 5,184,287</u>

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

The aging of accounts receivable were as follows:

	December 31	
	2016	2015
Not overdue	\$ 5,455,371	\$ 4,615,515
Overdue under 30 days	420,632	670,209
Overdue 31-60 days	7,273	6,047
Overdue 61 days and longer	<u>5,771</u>	<u>20,269</u>
	<u>\$ 5,889,047</u>	<u>\$ 5,312,040</u>

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

	For the Year Ended December 31	
	2016	2015
Balance at January 1	\$ 128,424	\$ 127,076
Add: Provision recognized on accounts receivable	4,932	1,698
Less: Amounts written off	-	(1,602)
Effect of exchange rate changes	<u>(1,052)</u>	<u>1,252</u>
Balance at December 31	<u>\$ 132,304</u>	<u>\$ 128,424</u>

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

11. FINANCE LEASE RECEIVABLES

	December 31	
	2016	2015
<u>Gross investment in leases</u>		
Not later than one year	\$ -	\$ 479,741
Later than one year and not later than five years	<u>-</u>	<u>88,944</u>
	-	568,685
Less: Unearned finance income	<u>-</u>	<u>(131,944)</u>
Present value of minimum lease payments	<u>\$ -</u>	<u>\$ 436,741</u>
<u>Finance lease receivables</u>		
Not later than one year (recorded as "other receivables")	\$ -	\$ 360,009
Later than one year and not later than five years (recorded as "other non-current assets")	<u>-</u>	<u>76,732</u>
Financial lease receivables	<u>\$ -</u>	<u>\$ 436,741</u>

The Company entered into finance lease agreements with a non-related party for certain machinery. All leases were denominated in New Taiwan dollars. The term of finance leases agreements was 3-5 years. The machinery was partially pledged to secure long-term borrowings. As of December 31, 2016, the financial lease agreements expired, and the pledged machinery has been cancelled off its pledged status.

The interest rate inherent in the leases was fixed at the contract date for the entire lease term. As of December 31, 2015, the interest rate inherent in the finance lease was 1.7% per annum. The finance lease receivables as of December 31, 2015 was neither past due nor impaired.

12. INVENTORIES

	December 31	
	2016	2015
Finished goods	\$ 1,574,361	\$ 1,889,379
Work-in-process	5,426,989	6,175,291
Raw materials and supplies	530,332	462,063
Inventories in transit	<u>4,479</u>	<u>9,102</u>
	<u>\$ 7,536,161</u>	<u>\$ 8,535,835</u>

- a. Gain on reversal of decline in market value and obsolescence and abandonment of inventories was \$44,645 thousand and loss on decline in market value and obsolescence and abandonment of inventories was \$141,831 thousand, which were recognized as cost of sales for the years ended December 31, 2016 and 2015, respectively. Gain on recovery of decline in market value amounted to \$316,533 thousand for the year ended December 31, 2016 was due to net realizable value increasing.
- b. Unallocated fixed manufacturing costs recognized as cost of sales in the years ended December 31, 2016 and 2015 amounted to \$587,534 thousand and \$222,235 thousand, respectively.

13. FINANCIAL ASSETS MEASURED AT COST

	December 31	
	2016	2015
LTIP Trust Fund	\$ 466,144	\$ 466,144
United Industrial Gases Co., Ltd.	81,081	81,081
Yu-Ji Venture Capital Co., Ltd.	25,000	30,000
Harbinger III Venture Capital Corp.	10,976	23,488
Smart Catch International Co., Ltd.	10,000	40,000
Nyquest Technology Co., Ltd. (Note 8)	-	68,071
Others	<u>18,498</u>	<u>19,002</u>
Non-current financial assets measured at cost	<u>\$ 611,699</u>	<u>\$ 727,786</u>

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

After proper assessment, the Company recognized an impairment loss on Smart Catch International Co., Ltd. of \$30,000 thousand, which was recorded as “impairment loss on financial assets” for the year ended December 31, 2016.

14. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

a. Investments in associates

	December 31	
	2016	2015
Associates that are not individually material		
Chin Xin Investment Co., Ltd.	<u>\$ 2,654,477</u>	<u>\$ 1,724,898</u>

b. Aggregate information of associates that are not individually material

	For the Year Ended December 31	
	2016	2015
The Group's share of:		
Profit from continuing operations	\$ 12,384	\$ 21,884
Other comprehensive income	<u>917,195</u>	<u>(713,373)</u>
Total comprehensive income for the year	<u>\$ 929,579</u>	<u>\$ (691,489)</u>

As of December 31, 2016, the Company had 182,841 thousand shares of Chin Xin Investment Co., Ltd. with a 38% ownership interest.

The investments accounted for using equity method and the shares of profit or loss and other comprehensive income of those investments for the years ended December 31, 2016 and 2015 were based on the associates' financial statements audited by independent auditors.

15. PROPERTY, PLANT AND EQUIPMENT

	December 31	
	2016	2015
Land	\$ 1,623,646	\$ 1,625,058
Buildings	7,228,631	7,909,104
Machinery and equipment	18,581,254	21,181,266
Other equipment	501,933	398,450
Construction in progress and prepayments for purchase of equipment	<u>6,437,073</u>	<u>801,152</u>
	<u>\$ 34,372,537</u>	<u>\$ 31,915,030</u>

	Land	Buildings	Machinery and Equipment	Other Equipment	Construction in Progress and Prepayments for Purchase of Equipment	Total
<u>Cost</u>						
Balance at January 1, 2016	\$ 1,625,058	\$ 21,494,688	\$ 91,709,441	\$ 3,260,504	\$ 801,152	\$ 118,890,843
Additions	-	129,356	1,483,005	238,179	6,203,107	8,053,647
Disposals	-	(225,649)	(225,498)	(40,238)	-	(491,385)
Reclassified	-	221,655	345,082	449	(567,186)	-
Effect of exchange rate changes	(1,412)	(5,019)	(1,711)	(7,234)	-	(15,376)
Balance at December 31, 2016	<u>\$ 1,623,646</u>	<u>\$ 21,615,031</u>	<u>\$ 93,310,319</u>	<u>\$ 3,451,660</u>	<u>\$ 6,437,073</u>	<u>\$ 126,437,729</u>
<u>Accumulated depreciation and impairment</u>						
Balance at January 1, 2016	\$ -	\$ 13,585,584	\$ 70,528,175	\$ 2,862,054	\$ -	\$ 86,975,813
Depreciation expenses	-	1,024,461	4,407,981	133,425	-	5,565,867
Disposals	-	(220,660)	(222,037)	(39,529)	-	(482,226)
Impairment loss	-	-	16,085	-	-	16,085
Effect of exchange rate changes	-	(2,985)	(1,139)	(6,223)	-	(10,347)
Balance at December 31, 2016	<u>\$ -</u>	<u>\$ 14,386,400</u>	<u>\$ 74,729,065</u>	<u>\$ 2,949,727</u>	<u>\$ -</u>	<u>\$ 92,065,192</u>
<u>Cost</u>						
Balance at January 1, 2015	\$ 1,622,173	\$ 20,643,796	\$ 89,977,831	\$ 3,120,111	\$ 200,919	\$ 115,564,830
Additions	-	494,037	2,014,854	147,349	1,025,718	3,681,958
Disposals	-	(26,538)	(339,076)	(11,129)	-	(376,743)
Reclassified	-	373,357	51,946	182	(425,485)	-
Effect of exchange rate changes	2,885	10,036	3,886	3,991	-	20,798
Balance at December 31, 2015	<u>\$ 1,625,058</u>	<u>\$ 21,494,688</u>	<u>\$ 91,709,441</u>	<u>\$ 3,260,504</u>	<u>\$ 801,152</u>	<u>\$ 118,890,843</u>
<u>Accumulated depreciation and impairment</u>						
Balance at January 1, 2015	\$ -	\$ 12,490,657	\$ 66,342,347	\$ 2,745,075	\$ -	\$ 81,578,079
Depreciation expenses	-	1,104,974	4,521,169	123,678	-	5,749,821
Disposals	-	(16,127)	(338,347)	(10,093)	-	(364,567)
Effect of exchange rate changes	-	6,080	3,006	3,394	-	12,480
Balance at December 31, 2015	<u>\$ -</u>	<u>\$ 13,585,584</u>	<u>\$ 70,528,175</u>	<u>\$ 2,862,054</u>	<u>\$ -</u>	<u>\$ 86,975,813</u>

- a. As of December 31, 2016 and 2015, the carrying amounts of \$20,272,406 thousand and \$22,384,768 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

	<u>For the Year Ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Capitalized interest amounts	\$ 49,882	\$ 65,163
Capitalized interest rates	1.87%-1.94%	2.02%-2.16%

- c. In response to future market demand and the development of advanced manufacturing processes, the Company invested in capital expenditure for the construction of the buildings and acquisition of related equipments. As of December 31 2016, unfinished buildings and machinery were in the amount of \$5,996,694 thousand, which was recorded as construction in progress and prepayments for purchase of equipment.
- d. The Company recognized an impairment loss of \$16,085 thousand, which was recorded as “impairment loss on property, plant and equipment” for the year ended December 31, 2016 since the carrying amount of some of equipment is expected to be unrecoverable.

16. INVESTMENT PROPERTIES

	December 31	
	2016	2015
Investment properties, net	<u>\$ 61,673</u>	<u>\$ 71,866</u>

The investment properties is in Shen-Zhen, China. As of December 31, 2016 and 2015, the fair value of such investment properties were both approximately \$200,000 thousand, which was referred by the neighborhood transactions.

	Investment Properties
<u>Cost</u>	
Balance at January 1, 2016	\$ 114,300
Effect of exchange rate changes	<u>(8,650)</u>
Balance at December 31, 2016	<u>\$ 105,650</u>
<u>Accumulated depreciation and impairment</u>	
Balance at January 1, 2016	\$ 42,434
Depreciation expenses	4,993
Effect of exchange rate changes	<u>(3,450)</u>
Balance at December 31, 2016	<u>\$ 43,977</u>
<u>Cost</u>	
Balance at January 1, 2015	\$ 116,521
Effect of exchange rate changes	<u>(2,221)</u>
Balance at December 31, 2015	<u>\$ 114,300</u>
<u>Accumulated depreciation and impairment</u>	
Balance at January 1, 2015	\$ 38,015
Depreciation expenses	5,183
Effect of exchange rate changes	<u>(764)</u>
Balance at December 31, 2015	<u>\$ 42,434</u>

17. INTANGIBLE ASSETS

		December 31	
		2016	2015
Deferred technical assets, net		\$ 283,732	\$ 269,420
Other intangible assets, net		<u>1,572</u>	<u>1,506</u>
		<u>\$ 285,304</u>	<u>\$ 270,926</u>
	Deferred Technical Assets	Other Intangible Assets	Total
<u>Cost</u>			
Balance at January 1, 2016	\$ 18,689,626	\$ 21,713	\$ 18,711,339
Additions	101,431	799	102,230
Disposals	-	(68)	(68)
Effect of exchange rate changes	<u>(1,447)</u>	<u>(119)</u>	<u>(1,566)</u>
Balance at December 31, 2016	<u>\$ 18,789,610</u>	<u>\$ 22,325</u>	<u>\$ 18,811,935</u>
<u>Accumulated amortization and impairment</u>			
Balance at January 1, 2016	\$ 18,420,206	\$ 20,207	\$ 18,440,413
Amortization expenses	87,026	614	87,640
Disposals	-	(68)	(68)
Impairment losses recognized in profit or loss	-	26	26
Effect of exchange rate changes	<u>(1,354)</u>	<u>(26)</u>	<u>(1,380)</u>
Balance at December 31, 2016	<u>\$ 18,505,878</u>	<u>\$ 20,753</u>	<u>\$ 18,526,631</u>
<u>Cost</u>			
Balance at January 1, 2015	\$ 18,646,641	\$ 20,269	\$ 18,666,910
Additions	36,909	992	37,901
Effect of exchange rate changes	<u>6,076</u>	<u>452</u>	<u>6,528</u>
Balance at December 31, 2015	<u>\$ 18,689,626</u>	<u>\$ 21,713</u>	<u>\$ 18,711,339</u>
<u>Accumulated amortization and impairment</u>			
Balance at January 1, 2015	\$ 18,336,024	\$ 19,270	\$ 18,355,294
Amortization expenses	79,537	459	79,996
Effect of exchange rate changes	<u>4,645</u>	<u>478</u>	<u>5,123</u>
Balance at December 31, 2015	<u>\$ 18,420,206</u>	<u>\$ 20,207</u>	<u>\$ 18,440,413</u>

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

18. BORROWINGS

Long-term Borrowings

		December 31		
		2016		2015
	Period	Interest Rate	Amount	Amount
CTBC Bank Co., Ltd. syndicated loan (IV)	2014.11.27-2019.11.27	1.87%-2.23%	\$ 8,166,660	\$ 9,000,000
Bank of Taiwan secured medium-term loan	2014.12.29-2021.12.29	1.40%-1.70%	617,600	617,600
Bank of Taiwan syndicated loan (IV)	2016.12.29-2021.12.29	1.79%	1,000,000	-
Bank of Taiwan syndicated loan (III)	2011.12.23-2016.12.23	-	-	3,518,927
			9,784,260	13,136,527
Less: Current portion			(3,090,180)	(4,352,267)
Less: Syndication agreement management fee			(55,807)	(29,100)
			<u>\$ 6,638,273</u>	<u>\$ 8,755,160</u>

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

- 1) On July 7, 2014, the Company entered into a syndicated loan, with a group of financial institutions to procure equipment for 12-inch Fab and fund the borrowing payments, credit line was divided into part A and B, which amounted to \$6.5 billion and \$2.5 billion, respectively; the total line of credit \$9 billion.
- 2) Part A will be repaid every six months from November 27, 2017 until maturity, part B will be repaid every six months from November 27, 2016 until maturity.
- 3) Please refer to Note 15 for collateral on bank borrowings.

b. The collateral on the Bank of Taiwan secured medium-term loan are the land and building of the Company in Zhubei, please referred to Note 15. The principal will be repaid every six months from June 29, 2017 until maturity.

c. Bank of Taiwan Syndicated Loan (IV)

- 1) On August 15, 2016, the Company entered into a syndicated loan, with a group of financial institutions, to procure equipment for 12-inch Fab and fund the borrowing payments. The credit line was divided into part A and B, which amounted to \$10 billion and \$2 billion, respectively; and the total line of credit amounted to \$12 billion.
- 2) Part A will be repaid every six months from December 29, 2019 until maturity, and part B will be repaid every six months from December 29, 2018 until maturity.
- 3) Please refer to Note 15 for collateral on bank borrowings.

d. Bank of Taiwan Syndicated Loan (III)

- 1) On September 19, 2011, the Company entered into a syndicated loan, with a group of 17 financial institutions, to procure equipment for 12-inch Fab. The original credit line amount of \$7 billion was deducted by \$0.25 billion because of prepayment, so the final credit line amounted to \$6.75 billion.
- 2) The Company changed the terms and repayment schedule of the agreement on December 18, 2013. The loan utilized before December 22, 2013 will be repaid every six months from June 23, 2014, and the loan utilized after December 22, 2013 will be repaid every six months at 30%, 30% and 40% from December 23, 2015.

- 3) Please refer to Note 15 for collateral on bank borrowings.
- 4) The loan was fully repaid on December 23, 2016.
- e. The Company is required to maintain certain financial covenants, including current ratio, debt ratio and tangible net equity, on June 30 and December 31 during the tenors of the loans. Additionally, the principal and interest coverage should be also maintained on June 30 and December 31 during the tenors of the loans except for the Bank of Taiwan secured medium - term loan. The computations of financial ratios mentioned above are done based on the audited consolidated financial statements.

19. RETIREMENT BENEFIT PLANS

a. Defined contribution plan

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

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

b. Defined benefit plan

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

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

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

	December 31	
	2016	2015
Present value of the defined benefit obligation	\$ 2,464,650	\$ 2,015,048
Fair value of the plan assets	<u>(1,401,944)</u>	<u>(989,079)</u>
Net defined benefit liabilities, non-current	<u>\$ 1,062,706</u>	<u>\$ 1,025,969</u>

Movements in net defined benefit liability (asset) were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability (Asset)
Balance at January 1, 2016	<u>\$ 2,015,048</u>	<u>\$ (989,079)</u>	<u>\$ 1,025,969</u>
Service cost			
Current service cost	68,244	-	68,244
Net interest expense (income)	50,646	(25,104)	25,542
Others	<u>1,710</u>	<u>(1,491)</u>	<u>219</u>
Recognized in profit or loss	<u>120,600</u>	<u>(26,595)</u>	<u>94,005</u>
Remeasurement			
Loss on plan assets	-	11,636	11,636
Actuarial loss (gain) - changes in financial assumptions	54,958	(10,855)	44,103
Actuarial loss (gain) - experience adjustments	<u>27,386</u>	<u>(569)</u>	<u>26,817</u>
Recognized in other comprehensive income	<u>82,344</u>	<u>212</u>	<u>82,556</u>
Contributions from the employer	-	(132,021)	(132,021)
Benefits paid	(56,655)	55,519	(1,136)
Account paid	(9,919)	-	(9,919)
Reclassified	313,638	(310,367)	3,271
Effect of exchange rate changes	<u>(406)</u>	<u>387</u>	<u>(19)</u>
Balance at December 31, 2016	<u>\$ 2,464,650</u>	<u>\$ (1,401,944)</u>	<u>\$ 1,062,706</u>
Balance at January 1, 2015	<u>\$ 1,913,155</u>	<u>\$ (938,315)</u>	<u>\$ 974,840</u>
Service cost			
Current service cost	34,556	-	34,556
Net interest expense (income)	<u>41,407</u>	<u>(20,353)</u>	<u>21,054</u>
Recognized in profit or loss	<u>75,963</u>	<u>(20,353)</u>	<u>55,610</u>
Remeasurement			
Return on plan assets	-	(5,179)	(5,179)
Actuarial loss - changes in financial assumptions	77,724	-	77,724
Actuarial loss - experience adjustments	<u>24,521</u>	<u>-</u>	<u>24,521</u>
Recognized in other comprehensive income	<u>102,245</u>	<u>(5,179)</u>	<u>97,066</u>
Contributions from the employer	-	(101,547)	(101,547)
Benefits paid	<u>(76,315)</u>	<u>76,315</u>	<u>-</u>
Balance at December 31, 2015	<u>\$ 2,015,048</u>	<u>\$ (989,079)</u>	<u>\$ 1,025,969</u>

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

	For the Year Ended December 31	
	2016	2015
Operating cost	\$ 23,644	\$ 24,714
Selling expenses	2,098	2,076
General and administrative expenses	8,791	4,621
Research and development expenses	<u>59,472</u>	<u>24,199</u>
	<u>\$ 94,005</u>	<u>\$ 55,610</u>

The fair value of the plan assets was as follows:

	December 31	
	2016	2015
Cash and cash equivalents	<u>\$ 1,401,944</u>	<u>\$ 989,079</u>

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

- 1) Investment risk: The plan assets are invested in domestic/and foreign/equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

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

	December 31	
	2016	2015
Discount rates	1.50%-4.95%	1.75%-1.90%
Expected rates of salary increase	1.00%-3.00%	1.00%-3.00%

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

	December 31	
	2016	2015
Discount rates		
0.25%-0.50% increase	<u>\$ (87,812)</u>	<u>\$ (79,735)</u>
0.25%-0.50% decrease	<u>\$ 92,977</u>	<u>\$ 85,023</u>
Expected rates of salary increase		
0.25%-0.50% increase	<u>\$ 90,152</u>	<u>\$ 83,978</u>
0.25%-0.50% decrease	<u>\$ (85,374)</u>	<u>\$ (79,466)</u>

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

	December 31	
	2016	2015
The expected contribution to the plan for the next year	<u>\$ 142,486</u>	<u>\$ 93,994</u>
The average duration of defined benefit obligation	6.93-13.66 years	9.70-13.80 years

20. EQUITY

a. Common stock

	December 31	
	2016	2015
Number of shares authorized (in thousands)	<u>6,700,000</u>	<u>6,700,000</u>
Share authorized	<u>\$ 67,000,000</u>	<u>\$ 67,000,000</u>
Number of shares issued and fully paid (in thousands)	<u>3,580,000</u>	<u>3,580,000</u>
Share issued	<u>\$ 35,800,002</u>	<u>\$ 35,800,002</u>

Reconciliation of outstanding shares:

	Shares (In Thousands)	Capital
January 1, 2016	<u>3,580,000</u>	<u>\$ 35,800,002</u>
December 31, 2016	<u>3,580,000</u>	<u>\$ 35,800,002</u>
January 1, 2015	3,694,982	\$ 36,949,822
Retirement of treasury share	<u>(114,982)</u>	<u>(1,149,820)</u>
December 31, 2015	<u>3,580,000</u>	<u>\$ 35,800,002</u>

As of December 31, 2016 and 2015, the balance of the Company's capital account amounted to \$35,800,002 thousand, divided into 3,580,000 thousand shares with par value of NT\$10.00 per share.

b. Capital surplus

	December 31	
	2016	2015
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital*</u>		
Arising from treasury share transactions	\$ 2,299,513	\$ 2,298,761
Arising from conversion of bonds	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
<u>May not be used for any purpose</u>		
Arising from share of changes in capital surplus of associates	<u>29,137</u>	<u>29,137</u>
	<u>\$ 2,471,044</u>	<u>\$ 2,470,292</u>

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

c. Retained earnings and dividend policy

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

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

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

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

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

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

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

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

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

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

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

The appropriations of earnings for 2016 are not subjected.

The appropriations of earnings for 2015 were approved in the shareholders' meetings on June 16, 2016.

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 208,606	
Special reserve	1,395,063	
Cash dividends	<u>358,000</u>	\$0.10
	<u>\$ 1,961,669</u>	

The Company experienced a loss for the year ended December 31, 2014, so the stockholders' meetings on June 18, 2015 did not cover appropriations of earnings. The relevant information about the Company is available on the Market Observation Post System website of the Taiwan Stock Exchange.

d. Other equity items

1) Exchange differences on translation of foreign financial statements

	For the Year Ended December 31	
	2016	2015
Balance at January 1	\$ 88,771	\$ 23,265
Exchange differences arising on translating the financial statements of foreign operations	<u>(65,338)</u>	<u>65,506</u>
Balance at December 31	<u>\$ 23,433</u>	<u>\$ 88,771</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 (loss) on available-for-sale financial assets

	For the Year Ended December 31	
	2016	2015
Balance at January 1	\$ (1,436,767)	\$ 292,835
Unrealized gain (loss) arising on revaluation of available-for-sale financial assets	1,695,871	(1,016,229)
Share of unrealized gain (loss) on revaluation of available-for-sale financial assets of associates accounted for using equity method	<u>917,195</u>	<u>(713,373)</u>
Balance at December 31	<u>\$ 1,176,299</u>	<u>\$ (1,436,767)</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.

e. Treasury shares

On July 31 and October 1, 2015, the Company's board of directors passed a resolution to buy back the Company's common shares from the open market. The repurchase price ranged from NT\$6.5 to NT\$8.5 per share. The Company bought back 114,982,000 shares for NT\$822,921 thousand. On October 31, 2015, the Company resolved to retire the 114,982,000 treasury shares.

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

Purpose of Buyback	Treasury Shares Held as of January 1, 2016	Increase During the Year	Decrease During the Year	Treasury Shares Held as of December 31, 2016
Common shares held by subsidiaries	<u>7,518,364</u>	<u>-</u>	<u>-</u>	<u>7,518,364</u>

2) Treasury shares transactions for the year of 2015 were summarized as follows:

Purpose of Buyback	Treasury Shares Held as of January 1, 2015	Increase During the Year	Decrease During the Year	Treasury Shares Held as of December 31, 2015
Maintain the Company's credibility and shareholders' equity	-	114,982,000	(114,982,000)	-
Common shares held by subsidiaries	<u>7,518,364</u>	<u>-</u>	<u>-</u>	<u>7,518,364</u>
	<u>7,518,364</u>	<u>114,982,000</u>	<u>(114,982,000)</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>December 31, 2016</u>			
Baystar Holdings Ltd.	7,518,364	<u>\$ 106,387</u>	<u>\$ 74,958</u>
<u>December 31, 2015</u>			
Baystar Holdings Ltd.	7,518,364	<u>\$ 106,387</u>	<u>\$ 59,320</u>

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 common stock.

f. Non-controlling interests

	<u>For the Year Ended December 31</u>	
	2016	2015
Balance at January 1	\$ 1,196,568	\$ 1,116,847
Attributable to non-controlling interests		
Share of profit for the year	242,283	181,622
Exchange difference on translation of foreign financial statements	(12,556)	6,779
Remeasurement of defined benefit plans	(13,275)	(11,559)
Unrealized gain (loss) arising on revaluation of available-for-sale financial assets	32,500	-
Decrease in non-controlling interests	<u>(145,682)</u>	<u>(97,121)</u>
Balance at December 31	<u>\$ 1,299,838</u>	<u>\$ 1,196,568</u>

21. EMPLOYEE BENEFITS EXPENSE, DEPRECIATION, AND AMORTIZATION

For the Year Ended December 31, 2016				
	Classified as Operating Costs	Classified as Operating Expenses	Classified as Non-operating Income and Losses	Total
Short-term employee benefits	\$ 2,558,428	\$ 4,142,696	\$ -	\$ 6,701,124
Post-employment benefits	\$ 120,778	\$ 246,759	\$ -	\$ 367,537
Depreciation	\$ 5,245,890	\$ 317,034	\$ 7,936	\$ 5,570,860
Amortization	\$ 33,293	\$ 54,483	\$ 11,893	\$ 99,669

For the Year Ended December 31, 2015				
	Classified as Operating Costs	Classified as Operating Expenses	Classified as Non-operating Income and Losses	Total
Short-term employee benefits	\$ 2,408,760	\$ 3,662,839	\$ -	\$ 6,071,599
Post-employment benefits	\$ 118,355	\$ 183,953	\$ -	\$ 302,308
Other long-term employment benefits	\$ -	\$ 47,027	\$ -	\$ 47,027
Depreciation	\$ 5,397,349	\$ 349,661	\$ 7,994	\$ 5,755,004
Amortization	\$ 33,290	\$ 47,114	\$ 21,591	\$ 101,995

In compliance with the Company Act as amended in May 2015, the Company's shareholders held their meeting on June 16, 2016 and resolved amendments to the Company's Articles. Refer to Note 20 for employee benefits expenses. For the years ended December 31, 2016 and 2015, the employees' compensation was \$34,400 thousand and \$28,475 thousand, and the remuneration of directors and supervisors was \$34,400 thousand and \$28,475 thousand, representing 1% of the base net profit (offset of deficit included), respectively. Material differences between such estimated amounts and the amounts proposed by the board of directors on or before the date of authorization of the annual consolidated financial statements for issue are adjusted in the year the bonus and remuneration were recognized. If there is a change in the proposed amounts after the annual consolidated financial statements were authorized for issue, the differences are recorded as a change in accounting estimate.

For the year ended December 31, 2015, the employees' compensation and remuneration of directors and supervisors were approved by the Company's board of directors on January 19, 2016. After the amendments to the Articles were resolved in the shareholders' meeting held on June 16, 2016, the appropriations of the employees' compensation and remuneration of directors and supervisors for 2015 were reported in the shareholders' meeting.

	For the Year Ended December 31, 2015
Employees' compensation	\$ 28,475
Remuneration of directors and supervisors	28,475

There was no difference between the amounts of the employees' compensation and the remuneration of directors and supervisors for 2015 resolved by the Company's board of directors on January 29, 2016, and the respective amounts recognized in the financial statements.

Due to the fact that there were no available earnings for distribution in 2014, there was no discussion of the distribution of bonus to employees and remuneration of directors and supervisors in the shareholders' meeting on June 18, 2015.

Information on the employees' compensation and remuneration of directors and supervisors for 2015 resolved by the Company's board of directors in 2016 and bonus to employees, directors and supervisors for 2014 resolved in the shareholders' meeting in 2015 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

The major components of income tax expense were as follows:

	For the Year Ended December 31	
	2016	2015
Current income tax	\$ 656,271	\$ 731,757
Adjustments for prior year's tax	5,379	(5,675)
Current income tax credit	(1,888)	(5,358)
Deferred income tax	<u>(45,216)</u>	<u>54,587</u>
Income tax expense recognized in profit or loss	<u>\$ 614,546</u>	<u>\$ 775,311</u>

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

	For the Year Ended December 31	
	2016	2015
Income tax expense from continuing operations at the statutory rate	\$ 750,443	\$ 788,657
Tax effect of adjustment item		
Permanent differences	(109,000)	(82,749)
Others	8,501	31,090
Additional income tax on unappropriated earnings	14,327	5,759
Tax-exempt income	<u>(8,000)</u>	<u>(11,000)</u>
Current income tax	656,271	731,757
Deferred income tax		
Temporary differences	(45,216)	54,587
Current income tax credit	(1,888)	(5,358)
Adjustment for prior years' tax	<u>5,379</u>	<u>(5,675)</u>
Income tax expense recognized in profit or loss	<u>\$ 614,546</u>	<u>\$ 775,311</u>

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

Since the statement of profit distribution for 2016 has not been approved in the shareholders' meeting, the potential effect on income tax for 10% legal reserve appropriated may not be decided.

b. Current tax assets and liabilities

	December 31	
	2016	2015
Current tax assets		
Tax refund receivables (recorded as “other receivables”)	<u>\$ 58,013</u>	<u>\$ -</u>
Current tax liabilities		
Income tax payables (recorded as “other payables”)	<u>\$ 35,788</u>	<u>\$ 61,628</u>

c. As of December 31, 2016 and 2015, deferred income tax assets of \$2,353,422 thousand and \$2,853,873 thousand, respectively, were mainly net operating loss carryforwards.

d. Information about the Group’s operating loss carryforwards as of December 31, 2016, and tax exemption was as follows:

As of December 31, 2016, WECA’s operating loss carryforward was US\$13,297 thousand, and will expire in 2025.

As of December 31, 2016, the Company’s operating loss carryforwards comprised of:

Operating Loss Carryforwards	Expiry Year
\$ 2,061,000	2018-2019
<u>475,000</u>	2022
<u>\$ 2,536,000</u>	

As of December 31, 2016, NTC’s profits attributable to the following expansion projects were exempted from income tax for a five-year period:

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

e. The information on the Company’s integrated income tax was as follows:

	December 31	
	2016	2015
Balance of imputation credit account	<u>\$ 379,848</u>	<u>\$ 381,992</u>
Undistributed earnings for the years of 1998 and thereafter	<u>\$ 2,952,901</u>	<u>\$ 2,086,060</u>

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

The creditable ratio for distribution of earning is 20.48% for the year ended December 31, 2015.

f. The Company’s tax returns through 2014 have been assessed by the tax authorities.

23. EARNINGS PER SHARE

For the Year Ended December 31, 2016					
			Earnings Per Share (NT\$)		
Amounts (Numerator)					
	Before Tax	After Tax and Attributable to Owners of the Parent	Shares (Denominator) (In Thousands)	Before Tax	After Tax and Attributable to Owners of the Parent
Basic earnings per share					
Net income attributed to common shareholders	\$ 3,754,620	\$ 2,897,791	3,572,482	\$ 1.05	\$ 0.81
Effect of dilutive potential common shares					
Employees' compensation	-	-	3,616		
Diluted earnings per share					
Net income attributed to common shareholders	\$ 3,754,620	\$ 2,897,791	3,576,098	\$ 1.05	\$ 0.81
For the Year Ended December 31, 2015					
			Earnings Per Share (NT\$)		
Amounts (Numerator)					
	Before Tax	After Tax and Attributable to Owners of the Parent	Shares (Denominator) (In Thousands)	Before Tax	After Tax and Attributable to Owners of the Parent
Basic earnings per share					
Net income attributed to common shareholders	\$ 4,248,184	\$ 3,291,251	3,648,377	\$ 1.16	\$ 0.90
Diluted earnings per share					
Net income attributed to common shareholders	\$ 4,248,184	\$ 3,291,251	3,648,377	\$ 1.16	\$ 0.90

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. The number of shares is estimated by dividing the entire amount of the bonus by the closing price of the shares at the balance sheet date. 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

For the Year Ended December 31		
	2016	2015
Non-cash investing and financing activities		
Long-term borrowings, current portion	\$ 3,090,180	\$ 4,352,267
Exchange differences on translation of foreign financial statements	\$ (65,338)	\$ 65,506
Unrealized gains (losses) on available-for-sale financial assets	\$ 2,613,066	\$ (1,729,602)

25. OPERATING LEASE ARRANGEMENTS

The Group as Lessee

a. Lease arrangements

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

NTC leased a land from Taiwan Sugar Corporation. Under a twenty-year term from October 2014 to September 2034, which is allowed to extend upon the expiration of lease. The chairman of NTC is a joint guarantor of such lease, please refer to Note 27.

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 2016 and 2022 which can be extended after the expiration of the lease periods.

As of December 31, 2016 and 2015, deposits paid under operating leases amounted to \$62,109 thousand and \$59,519 thousand, respectively (recorded as “other non-current assets”).

b. Prepayments for lease obligations

	For the Year Ended December 31	
	2016	2015
Current (recorded as “other current assets”)	\$ 4,112	\$ 3,140
Non-current (recorded as “other non-current assets”)	<u>39,892</u>	<u>42,273</u>
	<u>\$ 44,004</u>	<u>\$ 45,413</u>

c. Lease expense

	2016	2015
Lease expenditure	<u>\$ 214,363</u>	<u>\$ 190,174</u>

The Group as Lessor

Operating lease agreements

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

As of December 31, 2016 and 2015, deposits received under operating leases amounted to \$1,911 thousand and \$2,026 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, debt repayments and dividends payments.

27. RELATED PARTY TRANSACTIONS

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

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

- b. Operating activities

	For the Year Ended December 31	
	2016	2015
1) Operating revenue		
Related party in substance	\$ <u>314,131</u>	\$ <u>367,829</u>
2) Manufacturing expenses		
Related party in substance	\$ <u>2,516,392</u>	\$ <u>2,842,432</u>
3) General and administrative expenses		
Related party in substance	\$ 10,331	\$ 11,868
Investor that exercises significant influence over the Group	<u>8,967</u>	<u>8,566</u>
	\$ <u>19,298</u>	\$ <u>20,434</u>
4) Dividend income		
Investor that exercises significant influence over the Group	\$ 42,160	\$ -
Related party in substance	<u>27,467</u>	<u>34,590</u>
	\$ <u>69,627</u>	\$ <u>34,590</u>
5) Other income		
Related party in substance	\$ <u>1,436</u>	\$ <u>996</u>

	December 31	
	2016	2015
6) Accounts receivable due from related parties		
Related party in substance	<u>\$ 49,531</u>	<u>\$ 80,915</u>
7) Accounts payable to related parties		
Related party in substance	<u>\$ 472,489</u>	<u>\$ 707,064</u>
8) Other current assets		
Investor that exercises significant influence over the Group	<u>\$ 340</u>	<u>\$ 277</u>
9) Other payables		
Related party in substance	\$ 32,820	\$ 33,423
Investor that exercises significant influence over the Group	<u>6</u>	<u>1,545</u>
	<u>\$ 32,826</u>	<u>\$ 34,968</u>
10) Refundable deposits (recorded as “other non-current assets”)		
Related party in substance	\$ 1,722	\$ 1,722
Investor that exercises significant influence over the Group	<u>203</u>	<u>203</u>
	<u>\$ 1,925</u>	<u>\$ 1,925</u>

The related party transactions were conducted under normal terms.

c. Guarantee

As of December 31, 2016, the chairman of NTC is a joint guarantor of the land-leasing from Taiwan Sugar Corporation. Please refer to Note 25.

d. Compensation of key management personnel

	For the Year Ended December 31	
	2016	2015
Short-term employment benefits	\$ 270,790	\$ 253,656
Post-employment benefits	8,969	25,048
Other long-term employment benefits	<u>-</u>	<u>677</u>
	<u>\$ 279,759</u>	<u>\$ 279,381</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.

28. PLEDGED AND COLLATERALIZED ASSETS

Please refer to Note 6, Note 11, Note 15 and Note 18.

29. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

- a. Amounts available under unused letters of credit as of December 31, 2016 were approximately US\$7,826 thousand, JPY1,281,010 thousand and EUR352 thousand.
- b. Signed construction contract

	Total Contract Price	Payment as of December 31, 2016
TASA Construction Corporation	<u>\$ 1,140,000</u>	<u>\$ 1,012,223</u>

30. FINANCIAL INSTRUMENT

- a. Fair value of financial instruments

- 1) Valuation techniques and assumptions used in fair value measurement

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

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes publicly traded stocks, mutual funds and convertible bonds).
- Forward exchange contracts and cross currency swap contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.
- The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

- 2) Fair value measurements recognized in the consolidated balance sheets

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

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

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

Fair value hierarchy as at December 31, 2016

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

Fair value hierarchy as at December 31, 2015

	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
<u>Held-to-maturity investments</u>					
Domestic listed securities					
Financial bonds	\$ 99,900	\$ 99,565	\$ -	\$ -	\$ 99,565
<u>Financial assets measured at cost</u>					
Domestic emerging securities					
Equity securities	\$ 493	\$ -	\$ 258	\$ -	\$ 258

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

Fair value hierarchy as at December 31, 2016

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

Fair value hierarchy as at December 31, 2015

	Level 1	Level 2	Level 3	Total
<u>Available-for-sale financial assets</u>				
Domestic listed securities				
Equity securities	\$ 2,441,832	\$ -	\$ -	\$ 2,441,832
Overseas listed securities				
Equity securities	32,411	-	-	32,411
Mutual funds	<u>26,307</u>	<u>-</u>	<u>-</u>	<u>26,307</u>
	<u>\$ 2,500,550</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,500,550</u>

Financial liabilities at FVTPL

Derivative financial liabilities (not under hedge accounting)	<u>\$ -</u>	<u>\$ 22,427</u>	<u>\$ -</u>	<u>\$ 22,427</u>
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There were no transfers between the levels in 2016 and 2015, respectively.

b. Categories of financial instruments

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

	December 31			
	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Financial assets</u>				
Loans and receivables				
Cash and cash equivalents	\$ 7,683,817	\$ 7,683,817	\$ 6,396,615	\$ 6,396,615
Notes and accounts receivable (included related parties)	5,806,346	5,806,346	5,265,202	5,265,202
Other receivables	518,048	518,048	794,939	794,939
Refundable deposits (recorded in other non-current assets)	181,134	181,134	175,973	175,973
Finance lease receivable (recorded in other non-current assets)	-	-	76,732	76,732
Financial assets at FVTPA	5,559	5,559	-	-
Available-for-sale financial assets (current and non-current)	4,633,806	4,633,806	2,500,550	2,500,550
Held-to-maturity financial assets	-	-	99,900	99,565
Financial assets measured at cost	611,699	611,473	727,786	727,551
				(Continued)

	December 31			
	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Financial liabilities</u>				
Measured at amortized cost				
Notes and accounts payable (included related parties)	\$ 4,682,209	\$ 4,682,209	\$ 4,553,548	\$ 4,553,548
Payable on equipment and other payables	6,612,967	6,612,967	3,266,299	3,266,299
Long-term borrowings (included current portion)	9,784,260	9,784,260	13,136,527	13,136,527
Long-term contract payable (recorded in other non-current liabilities)	22,868	22,868	34,914	32,790
Guarantee deposits (recorded in other non-current liabilities)	86,518	86,518	53,505	53,505
Financial liabilities at FVTPL	47,288	47,288	22,427	22,427
				(Concluded)

c. Financial risk management objectives and policies

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

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

1) Market risk

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

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

a) Foreign currency risk

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

The sensitivity analysis included only outstanding foreign currency denominated monetary items at the end of the reporting period and an increase in net income and equity if New Taiwan dollars strengthen by 1% against foreign currencies. For a 1% weakening of New Taiwan dollars against US dollars, there would be impact on net income in the amounts of \$25,809 thousand and \$30,609 thousand increase for the years ended December 31, 2016 and 2015, respectively.

b) Interest rate risk

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

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

	December 31	
	2016	2015
Cash flow interest rate risk		
Financial assets	\$ 29,165	\$ 29,114
Financial liabilities	9,784,260	13,136,527

The sensitivity analyses below were determined based on the Group's exposure to interest rates for fair value of variable-rate derivatives instruments at the end of the reporting period. If interest rates had been higher by one percentage point, the Group's cash flows for the years ended December 31, 2016 and 2015 would have increased by \$97,551 thousand and \$131,074 thousand, respectively.

2) Credit risk

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

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

3) Liquidity risk

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

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

	December 31, 2016			
	Within 1 Year	1-2 Years	Over 2 Years	Total
<u>Non-derivative financial liabilities</u>				
Non-interest bearing	\$ 11,295,176	\$ 11,434	\$ 11,434	\$ 11,318,044
Variable interest rate liabilities	<u>3,090,180</u>	<u>2,723,520</u>	<u>3,970,560</u>	<u>9,784,260</u>
	<u>\$ 14,385,356</u>	<u>\$ 2,734,954</u>	<u>\$ 3,981,994</u>	<u>\$ 21,102,304</u>
	December 31, 2015			
	Within 1 Year	1-2 Years	Over 2 Years	Total
<u>Non-derivative financial liabilities</u>				
Non-interest bearing	\$ 7,819,848	\$ 11,127	\$ 21,663	\$ 7,852,638
Variable interest rate liabilities	<u>4,352,267</u>	<u>3,090,180</u>	<u>5,694,080</u>	<u>13,136,527</u>
	<u>\$ 12,172,115</u>	<u>\$ 3,101,307</u>	<u>\$ 5,715,743</u>	<u>\$ 20,989,165</u>

31. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

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

	December 31					
	2016			2015		
	Foreign Currencies (Thousand)	Exchange Rate (Note 1)	New Taiwan Dollars (Thousand)	Foreign Currencies (Thousand)	Exchange Rate (Note 1)	New Taiwan Dollars (Thousand)
<u>Financial assets</u>						
Monetary items						
USD	\$ 199,411	32.25	\$ 6,431,008	\$ 180,326	32.825	\$ 5,919,187
USD	15,393	117.02 (Note 2)	496,419	14,971	120.37 (Note 2)	491,428
EUR	2,710	33.90	91,878	1,669	35.88	59,868
JPY	2,555,860	0.2756	704,395	1,136,209	0.2727	309,844
RMB	48,389	4.617	223,412	72,568	4.995	362,475
ILS	14,568	8.3882	122,202	12,104	8.4085	101,776
Non-monetary items						
USD	13,759	32.25	443,734	13,775	32.825	452,149
<u>Financial liabilities</u>						
Monetary items						
USD	118,730	32.25	3,829,048	86,724	32.825	2,846,723
USD	9,587	117.02 (Note 2)	309,171	8,735	120.37 (Note 2)	286,741
EUR	3,395	33.90	115,082	1,912	35.88	68,609
JPY	2,712,845	0.2756	747,660	992,259	0.2727	270,589
ILS	14,002	8.3882	117,453	13,357	8.4085	112,313

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

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

For the years ended December 31, 2016 and 2015, realized and unrealized net foreign exchange gains (loss) were loss of \$94,713 thousand and gain of \$162,565 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.

32. SEGMENT INFORMATION

a. Basic information about operating segment

1) Classification of operating segments

The Group's reportable segments under IFRS 8 "Operating Segments" were as follows:

a) Segment of DRAM IC product

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

b) Segment of Flash Memory product

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

c) Segment of Logic IC product

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

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

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

b. Segment revenues and operating results

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

	Segment Revenue		Segment Profit and Loss	
	For the Year Ended		For the Year Ended	
	December 31		December 31	
	2016	2015	2016	2015
DRAM IC product	\$ 21,430,695	\$ 19,915,168	\$ 4,345,993	\$ 4,682,132
Flash Memory product	12,461,559	11,202,459	1,248,119	881,459
Logic IC product	<u>8,198,689</u>	<u>7,201,074</u>	<u>1,316,862</u>	<u>1,234,953</u>
Total of segment revenue	42,090,943	38,318,701	6,910,974	6,798,544
Other revenue	<u>766</u>	<u>31,614</u>	766	31,614
Operating revenue	<u>\$ 42,091,709</u>	<u>\$ 38,350,315</u>		
Unallocated expenditure				
Administrative and supporting expense			(1,308,571)	(1,257,611)
Sales and other common expenses			<u>(1,890,213)</u>	<u>(1,463,621)</u>
Income from operations			<u>3,712,956</u>	<u>4,108,926</u>
Non-operating income and expenses				
Interest income			175,417	173,461
Dividend income			126,790	124,449
Other income			38,495	53,143
Gain (losses) on financial instruments at fair value through profit or loss			55,725	(121,027)

(Continued)

	Segment Revenue		Segment Profit and Loss	
	For the Year Ended		For the Year Ended	
	December 31		December 31	
	2016	2015	2016	2015
Share of profit of associates accounted for using equity method			\$ 12,384	\$ 21,884
Interest expenses			(187,010)	(263,751)
Other expenses			(33,008)	(35,172)
Losses on disposal of property, plant and equipment			(4,520)	(8,341)
(Losses) gains on disposal of investments			(1,811)	32,047
Foreign exchange (losses) gains			(94,713)	162,565
Impairment loss on financial assets			(30,000)	-
Impairment loss on property, plant and equipment			<u>(16,085)</u>	<u>-</u>
Profit before income tax			<u>\$ 3,754,620</u>	<u>\$ 4,248,184</u>
				(Concluded)

c. Geographical information

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

	Revenue from		Non-current Assets	
	External Customers		For the Year Ended	
	December 31		December 31	
	2016	2015	2016	2015
Asia	\$ 38,232,002	\$ 35,068,097	\$ 34,574,410	\$ 32,103,482
United States	1,232,337	1,649,609	207,697	222,266
Europe	2,528,122	1,531,453	-	-
Others	<u>99,248</u>	<u>101,156</u>	<u>-</u>	<u>-</u>
	<u>\$ 42,091,709</u>	<u>\$ 38,350,315</u>	<u>\$ 34,782,107</u>	<u>\$ 32,325,748</u>

d. Major customer information

No individual customer exceeded 10% of the Group's net sales for the years ended December 31, 2016 and 2015.