

Winbond Electronics Corporation

**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 financial statements of Winbond Electronics Corporation (the Company), which comprise the balance sheets as of December 31, 2016 and 2015, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

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

Key Audit Matters

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

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 financial statements. Refer to Note 10 of the 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 Company'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 financial statements. Refer to Note 12 of the financial statements for details of the value of inventory provisions, depreciation, 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.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the year ended December 31, 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 financial statements are intended only to present the financial position, financial performance and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally applied in the Republic of China.

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

WINBOND ELECTRONICS CORPORATION

BALANCE SHEETS

DECEMBER 31, 2016 AND 2015

(In Thousands of New Taiwan Dollars)

ASSETS	2016		2015	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	\$ 4,874,171	8	\$ 3,634,615	6
Current financial assets at fair value through profit or loss (Notes 4 and 7)	5,559	-	-	-
Curent available-for-sale financial assets (Notes 4 and 8)	4,275,910	7	2,441,832	4
Current held-to-maturity financial assets (Notes 4 and 9)	-	-	99,900	-
Notes and accounts receivable, net (Notes 4 and 10)	3,320,240	5	2,802,110	5
Accounts receivable due from related parties, net (Note 26)	1,230,340	2	1,320,712	2
Other receivables (Note 11)	211,734	-	514,417	1
Inventories (Notes 4 and 12)	6,365,674	10	7,514,792	13
Other current assets	<u>986,006</u>	<u>1</u>	<u>1,016,814</u>	<u>2</u>
Total current assets	<u>21,269,634</u>	<u>33</u>	<u>19,345,192</u>	<u>33</u>
NON-CURRENT ASSETS				
Non-current financial assets measured at cost (Notes 4 and 13)	37,649	-	80,161	-
Investments accounted for using equity method (Notes 4 and 14)	7,201,908	11	6,049,338	10
Property, plant and equipment (Notes 4 and 15)	33,607,842	52	31,195,173	53
Intangible assets (Notes 4 and 16)	69,438	-	76,371	-
Deferred income tax assets (Notes 4 and 21)	2,066,000	3	2,527,000	4
Other non-current assets (Notes 6 and 11)	<u>146,579</u>	<u>1</u>	<u>223,037</u>	<u>-</u>
Total non-current assets	<u>43,129,416</u>	<u>67</u>	<u>40,151,080</u>	<u>67</u>
TOTAL	<u>\$ 64,399,050</u>	<u>100</u>	<u>\$ 59,496,272</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Current financial liabilities at fair value through profit or loss (Notes 4 and 7)	\$ 46,581	-	\$ 21,048	-
Notes payable	301,550	-	519,500	1
Accounts payable	3,023,405	5	2,677,142	5
Accounts payable to related parties (Note 26)	472,489	1	707,064	1
Payables on machinery and equipment	3,761,758	6	767,457	1
Other payables	2,018,276	3	1,753,839	3
Long-term borrowings, current portion (Note 17)	3,090,180	5	4,352,267	7
Other current liabilities	<u>46,177</u>	<u>-</u>	<u>80,157</u>	<u>-</u>
Total current liabilities	<u>12,760,416</u>	<u>20</u>	<u>10,878,474</u>	<u>18</u>
NON-CURRENT LIABILITIES				
Long-term borrowings (Note 17)	6,638,273	10	8,755,160	15
Net defined benefit liabilities, non-current (Notes 4 and 18)	572,610	1	524,047	1
Other non-current liabilities	<u>506,790</u>	<u>1</u>	<u>436,620</u>	<u>1</u>
Total non-current liabilities	<u>7,717,673</u>	<u>12</u>	<u>9,715,827</u>	<u>17</u>
Total liabilities	<u>20,478,089</u>	<u>32</u>	<u>20,594,301</u>	<u>35</u>
EQUITY (Note 19)				
Common stock	35,800,002	55	35,800,002	60
Capital surplus	2,471,044	4	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	<u>43,920,961</u>	<u>68</u>	<u>38,901,971</u>	<u>65</u>
TOTAL	<u>\$ 64,399,050</u>	<u>100</u>	<u>\$ 59,496,272</u>	<u>100</u>

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

WINBOND ELECTRONICS CORPORATION

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	\$ 33,534,343	100	\$ 30,843,606	100
OPERATING COSTS (Note 12)	<u>25,274,520</u>	<u>75</u>	<u>22,381,244</u>	<u>72</u>
GROSS PROFIT	<u>8,259,823</u>	<u>25</u>	<u>8,462,362</u>	<u>28</u>
OPERATING EXPENSES				
Selling expenses	808,914	3	773,989	3
General and administrative expenses	788,131	2	755,116	2
Research and development expenses	<u>3,692,984</u>	<u>11</u>	<u>3,426,559</u>	<u>11</u>
Total operating expenses	<u>5,290,029</u>	<u>16</u>	<u>4,955,664</u>	<u>16</u>
INCOME FROM OPERATIONS	<u>2,969,794</u>	<u>9</u>	<u>3,506,698</u>	<u>12</u>
NON-OPERATING INCOME AND EXPENSES				
Interest income	155,112	1	153,217	1
Dividend income	63,800	-	29,121	-
Other income	20,094	-	38,420	-
Gains (losses) on financial instruments at fair value through profit or loss	60,455	-	(109,851)	-
Share of profit of subsidiaries and associates accounted for using equity method (Note 14)	463,221	1	448,169	1
Interest expenses	(187,009)	(1)	(262,406)	(1)
Other expenses	(13,188)	-	(23,702)	-
Losses on disposal of property, plant and equipment	(4,327)	-	(8,238)	-
(Losses) gains on disposal of investments	(10,472)	-	1,625	-
Foreign exchange (losses) gains	(94,112)	-	137,198	-
Impairment loss on financial assets (Note 13)	(36,053)	-	-	-
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>401,436</u>	<u>1</u>	<u>403,553</u>	<u>1</u>
PROFIT BEFORE INCOME TAX	3,371,230	10	3,910,251	13
INCOME TAX EXPENSE (Notes 4 and 21)	<u>473,439</u>	<u>1</u>	<u>619,000</u>	<u>2</u>
NET PROFIT	<u>2,897,791</u>	<u>9</u>	<u>3,291,251</u>	<u>11</u>

(Continued)

WINBOND ELECTRONICS CORPORATION

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 18)	\$ (46,647)	-	\$ (31,518)	-
Share of other comprehensive loss of subsidiaries accounted for using equity method	(22,634)	-	(53,989)	-
Components of other comprehensive income that will be reclassified to profit or loss:				
Exchange differences on translation of foreign financial statements	(93)	-	817	-
Unrealized gains (losses) on available-for-sale financial assets	1,642,970	5	(984,703)	(3)
Share of other comprehensive income (loss) of subsidiaries and associates accounted for using equity method	<u>904,851</u>	<u>2</u>	<u>(680,210)</u>	<u>(3)</u>
Other comprehensive income (loss)	<u>2,478,447</u>	<u>7</u>	<u>(1,749,603)</u>	<u>(6)</u>
TOTAL COMPREHENSIVE INCOME	<u>\$ 5,376,238</u>	<u>16</u>	<u>\$ 1,541,648</u>	<u>5</u>
EARNINGS PER SHARE (Note 22)				
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 financial statements.

(Concluded)

WINBOND ELECTRONICS CORPORATION

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

	Common Stock	Capital Surplus	Retained Earnings			Other Equity		Treasury Shares	Total
			Legal Reserve	Special Reserve	(Accumulated Deficits) Unappropriated Earnings	Exchange Differences on Translation of Foreign Financial Statements	Unrealized Gains (Losses) on Available-for-sale Financial Assets		
BALANCE, JANUARY 1, 2015	\$ 36,949,822	\$ 2,143,393	\$ -	\$ -	\$ (1,119,684)	\$ 23,265	\$ 292,835	\$ (106,387)	\$ 38,183,244
Net profit for 2015	-	-	-	-	3,291,251	-	-	-	3,291,251
Other comprehensive income for 2015	-	-	-	-	(85,507)	65,506	(1,729,602)	-	(1,749,603)
Total comprehensive income for 2015	-	-	-	-	3,205,744	65,506	(1,729,602)	-	1,541,648
Acquisition of treasury share	-	-	-	-	-	-	-	(822,921)	(822,921)
Retirement of treasury share	(1,149,820)	326,899	-	-	-	-	-	822,921	-
BALANCE, DECEMBER 31, 2015	35,800,002	2,470,292	-	-	2,086,060	88,771	(1,436,767)	(106,387)	38,901,971
Appropriation of 2015 earnings									
Legal reserve	-	-	208,606	-	(208,606)	-	-	-	-
Special reserve	-	-	-	1,395,063	(1,395,063)	-	-	-	-
Cash dividends	-	-	-	-	(358,000)	-	-	-	(358,000)
Total appropriations	-	-	208,606	1,395,063	(1,961,669)	-	-	-	(358,000)
Net profit for 2016	-	-	-	-	2,897,791	-	-	-	2,897,791
Other comprehensive income for 2016	-	-	-	-	(69,281)	(65,338)	2,613,066	-	2,478,447
Total comprehensive income for 2016	-	-	-	-	2,828,510	(65,338)	2,613,066	-	5,376,238
Adjustments of capital surplus for company's cash dividends received by subsidiaries	-	752	-	-	-	-	-	-	752
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>

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

WINBOND ELECTRONICS CORPORATION

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	\$ 3,371,230	\$ 3,910,251
Adjustments for:		
Depreciation expense	5,393,102	5,589,185
Amortization expense	18,827	21,591
Provision for (reversal of) allowance for doubtful accounts	10,000	(13,398)
(Reversal of) provision for decline in market value and obsolescence and abandonment of inventories	(76,451)	121,523
Net loss on financial assets and liabilities at fair value through profit or loss	19,974	9,795
Interest expense	187,009	262,406
Interest income	(155,112)	(153,217)
Dividend income	(63,800)	(29,121)
Share of profit of subsidiaries and associates accounted for using equity method	(463,221)	(448,169)
Loss on disposal of property, plant and equipment	4,327	8,238
Loss (gain) on disposal of investments	10,472	(1,625)
Impairment loss on financial assets	36,053	-
Impairment loss on non-financial assets	16,085	-
(Gain) loss on foreign currency exchange of held-to-maturity financial assets	(1,200)	1,940
Unrealized profit on the transactions with subsidiaries	6,268	8,873
Changes in operating assets and liabilities		
(Increase) decrease in notes and accounts receivable	(528,130)	746,378
Decrease (increase) in accounts receivable due from related parties	94,830	(325,014)
(Increase) decrease in other receivables	(46,849)	16,232
Decrease (increase) in inventories	1,225,569	(2,101,729)
Decrease (increase) in other current assets	30,810	(164,104)
Increase in other non-current assets	(275)	(13,511)
Decrease in notes payable	(217,950)	(15,289)
Increase (decrease) in accounts payable	349,781	(70,608)
(Decrease) increase in accounts payable to related parties	(234,575)	64,756
Increase in other payables	253,245	88,315
(Decrease) increase in other current liabilities	(33,980)	8,494
Increase in other non-current liabilities	58,928	19,166
Cash inflow generated from operations	9,264,967	7,541,358
Interest received	19,285	26,121
Dividends received	303,706	181,066
Interest paid	(238,139)	(329,626)
Income taxes paid	(12,262)	(884)
Net cash flows from operating activities	9,337,557	7,418,035

(Continued)

WINBOND ELECTRONICS CORPORATION

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

	2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale financial assets	\$ (319,655)	\$ (653,619)
Proceeds from disposal of available-for-sale financial assets	110,162	32,027
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 repayments of held-to-maturity financial assets	101,100	-
Proceeds from capital reduction of financial assets measured at cost	12,512	-
Acquisition of investments accounted for using equity method	(50,000)	(5,947)
Proceeds from capital reduction of investments accounted for using equity method	-	114,651
Acquisitions of property, plant and equipment	(4,796,651)	(3,907,863)
Proceeds from disposal of property, plant and equipment	11,132	2,856
Acquisition of intangible assets	-	(24,371)
Decrease in finance lease receivables	<u>574,353</u>	<u>299,818</u>
Net cash used in investing activities	<u>(4,349,134)</u>	<u>(4,159,261)</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)
Cash dividends paid	(358,000)	-
Other financing activities	<u>(38,600)</u>	<u>-</u>
Net cash used in financing activities	<u>(3,748,867)</u>	<u>(3,770,397)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,239,556	(511,623)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3,634,615</u>	<u>4,146,238</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 4,874,171</u>	<u>\$ 3,634,615</u>

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

(Concluded)

WINBOND ELECTRONICS CORPORATION

NOTES TO 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 stockholder of the Company and held approximately 23% ownership interest in the Company as of December 31, 2016 and 2015.

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

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on February 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 Company 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

(Continued)

New, Amended or Revised Standards and Interpretations	Effective Date Issued by IASB (Note 1)
Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”	January 1, 2016
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 methods 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 Company’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 Company 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 addition 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 Company are deemed to have a substantive related party relationship, unless it can be demonstrated that no control or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationship with whom the Company has significant transactions. If the transactions or balance with a specific related party is 10% or more of the Company's respective total transactions or balance, such transaction should be separately disclosed by the name of each related party.

Except for the above impacts, as of the date the financial statements were authorized for issue, the Company 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 Company's financial position and financial performance, and will disclose these other impacts when the assessment is completed.

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

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

As of the date the 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 Company may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

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 Company shall recognize revenue by applying the following steps:

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

When IFRS 15 and related amendment are effective, the Company 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 Company 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 financial statements were authorized for issue, the Company is continuously assessing the possible impact that the application of other standards and interpretations will have on the Company's financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The financial statements have been prepared in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis of Preparation

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

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

Classification of Current and Non-current Assets and Liabilities

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

Foreign Currencies

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

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

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

For the purposes of presenting financial statements, the assets and liabilities of the Company's foreign operations are translated into New Taiwan dollars using exchange rate prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, and exchange difference arising are recognized in other comprehensive income.

Cash Equivalents

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

Financial Instruments

a. Financial assets

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

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

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

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

3) Held-to-maturity financial assets

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

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

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

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When accounts receivable are considered 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 Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

d. Financial liabilities

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

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

e. Derecognition of financial liabilities

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

f. Derivative financial instruments

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

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

g. Information about fair value of financial instruments

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

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

Inventories

Inventories consist of raw materials, supplies, finished goods and work-in-process 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 Accounted for Using Equity Method

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

a. Investment in subsidiaries

Subsidiaries are the entities controlled by the Company.

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

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

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

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

b. Investment in associates

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

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

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

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

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

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

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

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

Property, Plant and Equipment

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

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

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

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

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

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

Intangible Assets

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

Impairment of Tangible and Intangible Assets

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

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

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

Provisions

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

Revenue Recognition

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

Leasing

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

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

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

Borrowing Costs

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

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

Employee Benefits

a. Short-term employee benefits

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

b. Retirement benefits

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

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost and net interest on the net defined benefit 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 Company'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 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 Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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	\$ 230	\$ 230
Cash and deposits in banks	4,463,291	2,898,278
Repurchase agreements collateralized by bonds	<u>410,650</u>	<u>736,107</u>
	<u>\$ 4,874,171</u>	<u>\$ 3,634,615</u>

- a. The Company has time deposits pledged to secure land and building leases at a science park and customs tariff obligations 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>\$ 73,255</u>	<u>\$ 71,373</u>

- b. The Company 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>\$ 3,733</u>	<u>\$ -</u>

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2016	2015
<u>Financial assets at FVTPA - current</u>		
Derivative financial assets (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>\$ 46,581</u>	<u>\$ 21,048</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	USD96,000/NTD3,049,301
Sell forward exchange contracts	RMB to NTD	2017.01.13-2017.02.17	RMB30,000/NTD137,743
Foreign exchange swap contracts	EUR to NTD	2017.01.26-2017.02.24	EUR5,665/NTD197,931

December 31, 2015

Sell forward exchange contracts	USD to NTD	2016.01.08-2016.02.26	USD89,000/NTD2,909,362
---------------------------------	------------	-----------------------	------------------------

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

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<u>December 31</u>	
	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
CTBC Financial Holding Co., Ltd.	-	56,834
Cathay Financial Holding Co., Ltd.	-	46,323
Yuanta/P-Shares Taiwan Top 50 ETF	-	17,618
	<u>\$ 4,275,910</u>	<u>\$ 2,441,832</u>
Current available-for-sale financial assets		

9. CURRENT HELD-TO-MATURITY FINANCIAL ASSETS

	<u>December 31</u>	
	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 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	\$ -	\$ 658
Accounts receivable	3,401,240	2,872,452
Less: Allowance for doubtful accounts	<u>(81,000)</u>	<u>(71,000)</u>
	<u>\$ 3,320,240</u>	<u>\$ 2,802,110</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	\$ 3,207,725	\$ 2,438,918
Overdue under 30 days	182,636	427,393
Overdue 31-60 days	5,371	633
Overdue 61 days and longer	<u>5,508</u>	<u>5,508</u>
	<u>\$ 3,401,240</u>	<u>\$ 2,872,452</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	\$ 71,000	\$ 86,000
Add: Provisions (reversal of) recognized on accounts receivable	10,000	(13,398)
Less: Amounts written off	<u>-</u>	<u>(1,602)</u>
Balance at December 31	<u>\$ 81,000</u>	<u>\$ 71,000</u>

The Company'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>

(Continued)

	December 31	
	2016	2015
<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> (Concluded)

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	\$ 1,337,539	\$ 1,700,038
Work-in-process	4,576,960	5,419,231
Raw materials and supplies	451,175	387,505
Inventories in transit	<u>-</u>	<u>8,018</u>
	<u>\$ 6,365,674</u>	<u>\$ 7,514,792</u>

- a. Gain on reversal of decline in market value and obsolescence and abandonment of inventories was \$76,451 thousand and loss on decline in market value and obsolescence and abandonment of inventories was \$121,523 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 \$295,062 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
Harbinger III Venture Capital Corp.	\$ 14,396	\$ 26,908
Smart Catch International Co., Ltd.	10,000	40,000
Others	<u>13,253</u>	<u>13,253</u>
Non-Current financial assets measured at cost	<u>\$ 37,649</u>	<u>\$ 80,161</u>

Management believed that the above unlisted equity investments held by the Company have fair value 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 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 an impairment loss on financial assets for the year ended December 31, 2016.

14. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31	
	2016	2015
Investments in subsidiaries	\$ 4,547,431	\$ 4,324,440
Investments in associates	<u>2,654,477</u>	<u>1,724,898</u>
	<u>\$ 7,201,908</u>	<u>\$ 6,049,338</u>

a. Investments in subsidiaries

	December 31			
	2016		2015	
Name of Subsidiaries	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Listed companies				
Nuvoton Technology Corporation	\$ 2,039,669	61	\$ 1,882,834	61
Unlisted companies				
Winbond Int'l Corporation	1,871,256	100	1,865,121	100
Pine Capital Investment Limited	279,000	100	294,852	100
Landmark Group Holdings Ltd.	274,718	100	249,903	100
Techdesign Corporation	38,953	100	-	-
Winbond Technology LTD.	37,767	100	31,730	100
Winbond Electronics (H.K.) Limited	6,068	100	-	100
Newfound Asian Corp.	-	100	-	100
Mobile Magic Design Corporation	<u>-</u>	100	<u>-</u>	100
	<u>\$ 4,547,431</u>		<u>\$ 4,324,440</u>	

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

	December 31	
Name of Subsidiary	2016	2015
Nuvoton Technology Corporation	<u>\$ 4,900,197</u>	<u>\$ 3,893,568</u>

- 2) In May 2015, the Company subscribed for shares of Winbond Int'l Corporation for cash of \$3,068 thousand.
- 3) In March 2015, the Company subscribed for shares of Pine Capital Investment Limited for cash of \$1,583 thousand.
- 4) In October 2015, the Company subscribed for shares of Newfound Asian Corp. for cash of \$1,296 thousand.

- 5) In January and December 2015, the board of directors of Landmark Group Holdings Ltd. totally resolved capital reductions in the amount of \$114,651 thousand.
- 6) In May 2016, the Company purchased 100% of the shares of Techdesign Corporation from Nuvoton Technology Corporation.
- 7) In 2016 and 2015, the Company recognized shares of subsidiaries' profit under the equity method in the amounts of \$450,837 thousand and \$426,285 thousand, respectively.

b. Investments in associates

	December 31	
	2016	2015
1) Associates that are not individually material	<u>\$ 2,654,477</u>	<u>\$ 1,724,898</u>
2) Aggregate information of associates that are not individually material		
	For the Year Ended December 31	
	2016	2015
The Company'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>

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

15. PROPERTY, PLANT AND EQUIPMENT

	December 31	
	2016	2015
Land	\$ 1,544,450	\$ 1,544,450
Buildings	7,054,308	7,712,140
Machinery and equipment	18,206,326	20,865,443
Other equipment	401,479	281,329
Construction in progress and prepayments on purchase of equipment	<u>6,401,279</u>	<u>791,811</u>
	<u>\$ 33,607,842</u>	<u>\$ 31,195,173</u>

	Land	Buildings	Machinery and Equipment	Other Equipment	Construction in Progress and Prepayments on Purchase of Equipment	Total
<u>Cost</u>						
Balance at January 1, 2016	\$ 1,544,450	\$ 17,743,372	\$ 80,138,341	\$ 2,814,896	\$ 791,811	\$ 103,032,870
Additions	-	119,649	1,333,014	215,915	6,172,256	7,840,834
Disposals	-	(225,649)	(118,285)	(5,750)	-	(349,684)
Reclassified	-	221,656	340,672	460	(562,788)	-
Balance at December 31, 2016	<u>\$ 1,544,450</u>	<u>\$ 17,859,028</u>	<u>\$ 81,693,742</u>	<u>\$ 3,025,521</u>	<u>\$ 6,401,279</u>	<u>\$ 110,524,020</u>
<u>Accumulated depreciation and impairment</u>						
Balance at January 1, 2016	\$ -	\$ 10,031,232	\$ 59,272,898	\$ 2,533,567	\$ -	\$ 71,837,697
Depreciation expense	-	994,147	4,302,955	96,000	-	5,393,102
Disposals	-	(220,659)	(104,522)	(5,525)	-	(330,706)
Impairment loss recognized in profit or loss	-	-	16,085	-	-	16,085
Balance at December 31, 2016	<u>\$ -</u>	<u>\$ 10,804,720</u>	<u>\$ 63,487,416</u>	<u>\$ 2,624,042</u>	<u>\$ -</u>	<u>\$ 76,916,178</u>
<u>Cost</u>						
Balance at January 1, 2015	\$ 1,544,450	\$ 16,917,886	\$ 78,361,236	\$ 2,712,452	\$ 199,453	\$ 99,735,477
Additions	-	475,078	1,895,035	104,816	1,016,376	3,491,305
Disposals	-	(22,906)	(168,634)	(2,372)	-	(193,912)
Reclassified	-	373,314	50,704	-	(424,018)	-
Balance at December 31, 2015	<u>\$ 1,544,450</u>	<u>\$ 17,743,372</u>	<u>\$ 80,138,341</u>	<u>\$ 2,814,896</u>	<u>\$ 791,811</u>	<u>\$ 103,032,870</u>
<u>Accumulated depreciation and impairment</u>						
Balance at January 1, 2015	\$ -	\$ 8,966,207	\$ 55,017,785	\$ 2,447,338	\$ -	\$ 66,431,330
Depreciation expense	-	1,077,572	4,423,020	88,593	-	5,589,185
Disposals	-	(12,547)	(167,907)	(2,364)	-	(182,818)
Balance at December 31, 2015	<u>\$ -</u>	<u>\$ 10,031,232</u>	<u>\$ 59,272,898</u>	<u>\$ 2,533,567</u>	<u>\$ -</u>	<u>\$ 71,837,697</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 borrowing. The Company was not permitted to sell or pledge any of these pledged assets.

b. Information about capitalized interest

	For the Year Ended December 31	
	2016	2015
Capitalized interest amounts	\$ 49,882	\$ 65,163
Capitalized interest rate	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 equipment. As of December 31, 2016, unfinished buildings and machinery were in the amount of \$5,996,694 thousand, which was recorded as construction in progress and prepayments on 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. INTANGIBLE ASSET

	December 31	
	2016	2015
Deferred technical assets, net	<u>\$ 69,438</u>	<u>\$ 76,371</u>
		Deferred Technical Assets
<u>Cost</u>		
Balance at January 1, 2016		<u>\$ 17,787,924</u>
Balance at December 31, 2016		<u>\$ 17,787,924</u>
<u>Accumulated amortization and impairment</u>		
Balance at January 1, 2016		\$ 17,711,553
Amortization expense		<u>6,933</u>
Balance at December 31, 2016		<u>\$ 17,718,486</u>
<u>Cost</u>		
Balance at January 1, 2015		\$ 17,763,553
Additions		<u>24,371</u>
Balance at December 31, 2015		<u>\$ 17,787,924</u>

(Continued)

**Deferred
Technical
Assets**

Accumulated amortization and impairment

Balance at January 1, 2015	\$ 17,711,553
Balance at December 31, 2015	\$ 17,711,553 (Concluded)

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.

17. BORROWINGS

	December 31	
	2016	2015
Long-term borrowings	\$ 9,728,453	\$ 13,107,427

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 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 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.

18. RETIREMENT BENEFIT PLANS

a. Defined contribution plan

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

b. Defined benefit plan

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

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

	December 31	
	2016	2015
Present value of the defined benefit obligation	\$ 1,067,856	\$ 1,013,847
Fair value of the plan assets	<u>(495,246)</u>	<u>(489,800)</u>
Net defined benefit liabilities, non-current	<u>\$ 572,610</u>	<u>\$ 524,047</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>\$ 1,013,847</u>	<u>\$ (489,800)</u>	<u>\$ 524,047</u>
Service cost			
Current service cost	17,226	-	17,226
Net interest expense (income)	<u>17,614</u>	<u>(8,501)</u>	<u>9,113</u>
Recognized in profit or loss	<u>34,840</u>	<u>(8,501)</u>	<u>26,339</u>
Remeasurement			
Loss on plan assets	-	5,086	5,086
Actuarial loss - changes in financial assumptions	24,171	-	24,171
Actuarial loss - experience adjustments	<u>17,390</u>	<u>-</u>	<u>17,390</u>
Recognized in other comprehensive income	<u>41,561</u>	<u>5,086</u>	<u>46,647</u>
Contributions from the employer	-	(14,504)	(14,504)
Benefits paid	(12,473)	12,473	-
Account paid	<u>(9,919)</u>	<u>-</u>	<u>(9,919)</u>
Balance at December 31, 2016	<u>\$ 1,067,856</u>	<u>\$ (495,246)</u>	<u>\$ 572,610</u>
Balance at January 1, 2015	<u>\$ 984,184</u>	<u>\$ (502,500)</u>	<u>\$ 481,684</u>
Service cost			
Current service cost	14,900	-	14,900
Net interest expense (income)	<u>20,965</u>	<u>(10,764)</u>	<u>10,201</u>
Recognized in profit or loss	<u>35,865</u>	<u>(10,764)</u>	<u>25,101</u>
Remeasurement			
Return on plan assets	-	(2,501)	(2,501)
Actuarial loss - changes in financial assumptions	37,933	-	37,933
Actuarial gain - experience adjustments	<u>(3,914)</u>	<u>-</u>	<u>(3,914)</u>
Recognized in other comprehensive income	<u>34,019</u>	<u>(2,501)</u>	<u>31,518</u>
Contributions from the employer	-	(14,256)	(14,256)
Benefits paid	<u>(40,221)</u>	<u>40,221</u>	<u>-</u>
Balance at December 31, 2015	<u>\$ 1,013,847</u>	<u>\$ (489,800)</u>	<u>\$ 524,047</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	\$ 14,363	\$ 14,014
Selling expenses	1,973	1,890
General and administrative expenses	2,779	2,805
Research and development expenses	<u>7,224</u>	<u>6,392</u>
	<u>\$ 26,339</u>	<u>\$ 25,101</u>

The fair value of the plan assets was as follows:

	December 31	
	2016	2015
Cash and cash equivalents	<u>\$ 495,246</u>	<u>\$ 489,800</u>

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

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

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

	December 31	
	2016	2015
Discount rate	1.50%	1.75%
Expected rate of salary increase	3.00%	3.00%

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

	December 31	
	2016	2015
Discount rate		
0.5% increase	<u>\$ (47,645)</u>	<u>\$ (47,080)</u>
0.5% decrease	<u>\$ 51,145</u>	<u>\$ 50,642</u>
Expected rate of salary increase		
0.5% increase	<u>\$ 50,149</u>	<u>\$ 49,781</u>
0.5% decrease	<u>\$ (47,218)</u>	<u>\$ (46,769)</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 change 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>\$ 14,939</u>	<u>\$ 6,630</u>
The average duration of defined benefit obligation	9.30 years	9.70 years

19. 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 distribute employees' compensation and remuneration of directors and supervisors at 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 to 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 stockholders 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 stockholders' equity, such as the accumulated balance of foreign currency translation reserve, unrealized valuation gain/loss from available-for-sale financial assets, net amounts of fair value below the cost of the Company's common shares held by subsidiaries, etc. For the subsequent decrease in the deduction amount to stockholders' 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	(93)	817
Share of exchange difference of subsidiaries and associates accounted for using the equity method	<u>(65,245)</u>	<u>64,689</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 Company's presentation currency are recognized directly in other comprehensive income and also accumulated in the foreign currency translation reserve.

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

	For the Year Ended December 31	
	2016	2015
Balance at January 1	\$ (1,436,767)	\$ 292,835
Unrealized gain (loss) arising on revaluation of available-for-sale financial assets	1,642,970	(984,703)
Share of unrealized gain (loss) on revaluation of available-for-sale financial assets of subsidiaries and associates accounted for using equity method	<u>970,096</u>	<u>(744,899)</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, 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 stockholders, except for the right to participate in the Company's share issuance for cash and vote in stockholders' meeting when the subsidiary held more than 50%. Other rights are the same as common stock.

20. 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				
Salary	<u>\$ 1,743,341</u>	<u>\$ 1,471,123</u>	<u>\$ -</u>	<u>\$ 3,214,464</u>
Insurance	<u>\$ 118,544</u>	<u>\$ 80,620</u>	<u>\$ -</u>	<u>\$ 199,164</u>
Post-employment benefits				
Pension	<u>\$ 87,673</u>	<u>\$ 58,684</u>	<u>\$ -</u>	<u>\$ 146,357</u>
Depreciation	<u>\$ 5,147,057</u>	<u>\$ 246,045</u>	<u>\$ -</u>	<u>\$ 5,393,102</u>
Amortization	<u>\$ -</u>	<u>\$ 6,933</u>	<u>\$ 11,894</u>	<u>\$ 18,827</u>

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				
Salary	<u>\$ 1,595,909</u>	<u>\$ 1,297,193</u>	<u>\$ -</u>	<u>\$ 2,893,102</u>
Insurance	<u>\$ 116,780</u>	<u>\$ 74,134</u>	<u>\$ -</u>	<u>\$ 190,914</u>
Post-employment benefits				
Pension	<u>\$ 83,780</u>	<u>\$ 61,692</u>	<u>\$ -</u>	<u>\$ 145,472</u>
Depreciation	<u>\$ 5,305,178</u>	<u>\$ 284,007</u>	<u>\$ -</u>	<u>\$ 5,589,185</u>
Amortization	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,591</u>	<u>\$ 21,591</u>

There were 2,434 and 2,321 employees in the Company as of December 31, 2016 and 2015, respectively.

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 19 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 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 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.

21. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Income tax recognized in profit or loss

The major components of income tax expense were as follows:

	For the Year Ended December 31	
	2016	2015
Current income tax expense		
In respect of the current year	\$ 493,000	\$ 597,000
Additional income tax expense on unappropriated earnings	12,439	-
Deferred income tax		
In respect of the current year	<u>(32,000)</u>	<u>22,000</u>
Income tax expense recognized in profit or loss	<u>\$ 473,439</u>	<u>\$ 619,000</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	\$ 573,000	\$ 665,000
Tax effect of adjustment items		
Permanent difference	<u>(80,000)</u>	<u>(68,000)</u>
Current income tax expense	493,000	597,000
Temporary difference	<u>(32,000)</u>	<u>22,000</u>
Additional income tax expense on unappropriated earnings	<u>12,439</u>	<u>-</u>
Income tax expense recognized in profit or loss	<u>\$ 473,439</u>	<u>\$ 619,000</u>

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

b. Current tax assets and liabilities

	December 31	
	2016	2015
Current income tax assets		
Tax refund receivable (recorded as "other receivables")	<u>\$ 19,457</u>	<u>\$ 7,195</u>
Current income tax liabilities		
Income tax payable (recorded as "other payables")	<u>\$ 12,439</u>	<u>\$ -</u>

c. As of December 31, 2016 and 2015, deferred tax assets of \$2,066,000 thousand and \$2,527,000 thousand, respectively, were mainly net operating loss carryforwards.

- d. Information about the Company's operating loss carryforwards as of December 31, 2016 was as follows:

Operating loss carryforwards as of December 31, 2016, comprised of:

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

- e. The information on the integrated income tax was as follows:

	December 31	
	2016	2015
Balance of imputation credit account	\$ 379,848	\$ 381,992
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 actual creditable ratio for distribution of earning is 20.48% for the year ended December 31, 2015.

- f. The tax returns through 2014 have been assessed by the tax authorities.

22. EARNINGS PER SHARE

	For the Year Ended December 31, 2016				
	Amounts (Numerator)		Shares	Earnings Per Share (NT\$)	
	Before Tax	After Tax	(Denominator) (In Thousands)	Before Tax	After Tax
Basic earnings per share					
Net income attributed to common shareholders	\$ 3,371,230	\$ 2,897,791	3,572,482	<u>\$ 0.94</u>	<u>\$ 0.81</u>
Effect of dilutive potential common shares					
Employees' compensation	-	-	3,616		
Diluted earnings per share					
Net income attributed to common shareholders	<u>\$ 3,371,230</u>	<u>\$ 2,897,791</u>	<u>3,576,098</u>	<u>\$ 0.94</u>	<u>\$ 0.81</u>
	For the Year Ended December 31, 2015				
	Amounts (Numerator)		Shares	Earnings Per Share (NT\$)	
	Before Tax	After Tax	(Denominator) (In Thousands)	Before Tax	After Tax
Basic earnings per share					
Net income attributed to common shareholders	<u>\$ 3,910,251</u>	<u>\$ 3,291,251</u>	<u>3,648,377</u>	<u>\$ 1.07</u>	<u>\$ 0.90</u>
Diluted earnings per share					
Net income attributed to common shareholders	<u>\$ 3,910,251</u>	<u>\$ 3,291,251</u>	<u>3,648,377</u>	<u>\$ 1.07</u>	<u>\$ 0.90</u>

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

23. NON-CASH TRANSACTIONS

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

24. OPERATING LEASE ARRANGEMENTS

The Company as Lessee

a. Lease arrangements

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

The Company leased some of the offices, and the lease terms will expire between 2017 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 \$15,785 thousand and \$14,160 thousand, respectively (recorded as "other non-current assets").

b. Lease expense

	<u>For the Year Ended December 31</u>	
	2016	2015
Lease expenditure	<u>\$ 86,701</u>	<u>\$ 67,649</u>

25. CAPITAL MANAGEMENT

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

26. RELATED PARTY TRANSACTIONS

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

Related Party	Relationship with the Company
Walsin Lihwa Corporation	Investor that exercises significant influence over the Company
Winbond Electronics (H.K.) Limited	Subsidiary
Mobile Magic Design Corporation	Subsidiary
Winbond Electronics (Suzhou) Limited	Subsidiary
Winbond Electronics Corporation America	Subsidiary
Winbond Electronics Corporation Japan	Subsidiary
Winbond Technology LTD.	Subsidiary
Nuvoton Technology Corporation	Subsidiary
Techdesign Corporation	Subsidiary
Walton Advanced Engineering Inc.	Related party in substance
Walton Advanced Engineering (Suzhou) Inc.	Related party in substance
HannStar Display Corporation	Related party in substance
HannStar Board Corporation	Related party in substance
Walsin Technology Corporation	Related party in substance
Harbinger III Venture Capital Corp.	Related party in substance

- b. Operating activities

	For the Year Ended December 31	
	2016	2015
1) Operating revenue		
Subsidiaries	\$ 12,339,040	\$ 11,026,137
2) Manufacturing expenses		
Related party in substance	\$ 2,516,392	\$ 2,842,432
3) Selling expenses		
Subsidiaries	\$ 162,472	\$ 152,566
4) General and administrative expenses		
Investor that exercises significant influence over the Company	\$ 8,967	\$ 8,566
Related party in substance	-	1,537
	\$ 8,967	\$ 10,103
5) Research and development expenses		
Subsidiaries	\$ 926,205	\$ 804,772

		For the Year Ended December 31	
		2016	2015
6) Other income			
Subsidiaries	\$	2,609	\$ 2,111
Related party in substance		<u>1,323</u>	<u>663</u>
	\$	<u>3,932</u>	<u>2,774</u>
7) Dividend income			
Investor that exercises significant influence over the Company	\$	42,160	\$ -
Related party in substance		<u>19,392</u>	<u>24,021</u>
	\$	<u>61,552</u>	<u>24,021</u>
		December 31	
		2016	2015
8) Accounts receivable due from related parties			
Subsidiaries	\$	<u>1,230,340</u>	<u>1,320,712</u>
9) Accounts payable to related parties			
Related party in substance	\$	<u>472,489</u>	<u>707,064</u>
10) Other receivables and other current assets			
Subsidiaries	\$	11,159	\$ 52
Investor that exercises significant influence over the Company		<u>340</u>	<u>277</u>
	\$	<u>11,499</u>	<u>329</u>
11) Other payables			
Subsidiaries	\$	217,711	\$ 237,184
Related party in substance		32,819	33,423
Investor that exercises significant influence over the Company		<u>6</u>	<u>1,545</u>
	\$	<u>250,536</u>	<u>272,152</u>
12) Refundable deposits (recorded as “other non-current assets”)			
Subsidiaries	\$	545	\$ 545
Investor that exercises significant influence over the Company		<u>203</u>	<u>203</u>
	\$	<u>748</u>	<u>748</u>

The related party transactions were conducted under normal terms.

13) Disposal of property, plant and equipment

	For the Year Ended December 31			
	2016		2015	
	Proceeds	Gain on Disposal	Proceeds	Gain on Disposal
Subsidiaries	<u>\$ 10,551</u>	<u>\$ 160</u>	<u>\$ -</u>	<u>\$ -</u>

14) Acquisition of financial assets

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

c. Compensation of key management personnel

	For the Year Ended December 31	
	2016	2015
Short-term employment benefits	\$ 112,479	\$ 114,453
Post-employment benefits	<u>528</u>	<u>19,953</u>
	<u>\$ 113,007</u>	<u>\$ 134,406</u>

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

27. PLEDGED AND COLLATERALIZED ASSETS

Please refer to Note 6, Note 11, Note 15 and Note 17.

28. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

- Amounts available under unused letters of credit as of December 31, 2016 were approximately US\$7,472 thousand, JPY1,281,010 thousand and EUR352 thousand.
- 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>

29. FINANCIAL INSTRUMENT

a. Fair value of financial instruments

1) Valuation techniques and assumptions used in fair value measurement

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

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

2) Fair value measurements recognized in the 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, 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

2) 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	\$ 4,275,910	\$ -	\$ -	\$ 4,275,910
<u>Financial liabilities at FVTPL</u>				
Derivative financial liabilities (not under hedge accounting)	\$ -	\$ 46,581	\$ -	\$ 46,581

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
<u>Financial liabilities at FVTPL</u>				
Derivative financial liabilities (not under hedge accounting)	\$ -	\$ 21,048	\$ -	\$ 21,048

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	\$ 4,874,171	\$ 4,874,171	\$ 3,634,615	\$ 3,634,615
Notes and accounts receivable (included related parties)	4,550,580	4,550,580	4,122,822	4,122,822
Other receivables	211,734	211,734	514,417	514,417
Refundable deposits (recorded in other non-current assets)	94,860	94,860	90,964	90,964
Finance lease receivable (recorded in other non-current assets)	-	-	76,732	76,732

(Continued)

	December 31			
	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets at FVTPA	\$ 5,559	\$ 5,559	\$ -	\$ -
Available-for-sale financial assets	4,275,910	4,275,910	2,441,832	2,441,832
Held-to-maturity financial assets	-	-	99,900	99,565
Financial assets measured at cost	37,649	37,649	80,161	80,161
Financial liabilities				
Measured at amortized cost				
Notes and accounts payable (included related parties)	3,797,444	3,797,444	3,903,706	3,903,706
Payable on equipment and other payables	5,780,034	5,780,034	2,521,296	2,521,296
Long-term borrowings (included current portion)	9,784,260	9,784,260	13,136,527	13,136,527
Guarantee deposits (recorded in other non-current liabilities)	458	458	458	458
Financial liabilities at FVTPL	46,581	46,581	21,048	21,048
				(Concluded)

c. Financial risk management objectives and policies

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

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

1) Market risk

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

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

a) Foreign currency risk

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

The sensitivity analysis included only outstanding foreign currency denominated monetary items at the end of the reporting period and an increase in net income and equity if New Taiwan dollars strengthen by 1% against foreign currencies. For a 1% weakening of New Taiwan dollars against U.S. dollars, there would be impact on net income in the amounts of \$25,417 thousand and \$28,964 thousand increase for the years ended December 31, 2016 and 2015.

b) Interest rate risk

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

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

	December 31	
	2016	2015
Cash flow interest rate risk		
Financial assets	\$ 493	\$ 493
Financial liabilities	9,784,260	13,136,527

The sensitivity analyses below were determined based on the Company's exposure to interest rates for fair value of variable-rate derivatives instruments at the end of the reporting period. If interest rates had been higher by one percentage point, the Company's cash flows for the years ended December 31, 2016 and 2015 would increase by \$97,838 thousand and \$131,360 thousand, respectively.

2) Credit risk

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

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

3) Liquidity risk

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

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

	December 31, 2016			
	Within 1 Year	1-2 Years	Over 2 Years	Total
<u>Non-derivative financial liabilities</u>				
Non-interest bearing	\$ 9,577,478	\$ -	\$ -	\$ 9,577,478
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>\$ 12,667,658</u>	<u>\$ 2,723,520</u>	<u>\$ 3,970,560</u>	<u>\$ 19,361,738</u>

	December 31, 2015			
	Within 1 Year	1-2 Years	Over 2 Years	Total
<u>Non-derivative financial liabilities</u>				
Non-interest bearing	\$ 6,425,002	\$ -	\$ -	\$ 6,425,002
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>\$ 10,777,269</u>	<u>\$ 3,090,180</u>	<u>\$ 5,694,080</u>	<u>\$ 19,561,529</u>

30. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the Company entities and the exchange rates between foreign currencies and respective functional currencies were disclosed. The significant assets and liabilities denominated in foreign currencies were as follows:

	December 31					
	2016			2015		
	Foreign Currencies (Thousand)	Exchange Rate	New Taiwan Dollars (Thousand)	Foreign Currencies (Thousand)	Exchange Rate	New Taiwan Dollars (Thousand)
<u>Financial assets</u>						
Monetary items						
USD	\$ 176,037	32.25	\$ 5,677,197	\$ 158,458	32.825	\$ 5,201,376
EUR	2,603	33.90	88,249	1,668	35.88	59,848
JPY	2,532,339	0.2756	697,913	1,103,491	0.2727	300,922
RMB	46,220	4.617	213,398	70,992	4.995	354,605
Non-monetary items						
ILS	4,502	8.3882	37,767	3,774	8.4085	31,730
<u>Financial liabilities</u>						
Monetary items						
USD	97,225	32.25	3,135,513	70,220	32.825	2,304,985
EUR	3,244	33.90	100,971	1,871	35.88	67,146
JPY	2,680,660	0.2756	738,790	955,934	0.2727	260,683

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

Foreign Currencies	For the Year Ended December 31	
	2016	2015
USD	\$ (80,152)	\$ 144,843
RMB	(19,696)	(11,525)
JPY	<u>11,754</u>	<u>2,703</u>
	<u>\$ (88,094)</u>	<u>\$ 136,021</u>