

Macronix International Co., Ltd.

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

INDEPENDENT AUDITORS' REPORT

The Board of Directors and the Shareholders
Macronix International Co., Ltd.

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

Key audit matters for the Company's parent company only financial statements for the year ended December 31, 2017 are stated as follows:

Recognition of revenue

The Company operates principally as a supplier of memory chips. For the year ended December 31, 2017, the revenue recognized was NT\$33,500,949 thousand, increasing by 41% compared with that of last year. Due to the market rebound of memory chips, the Company released certain sales orders by temporarily increasing the credit line. As such, this gives the rise of the potential risk of overstating sales. We therefore considered that testing the existence and occurrence of sales is a key audit matter of current period.

Our audit procedures performed included, but not limited to, the following:

1. We evaluated the appropriateness of the Company's accounting policies relating to revenue recognition;
2. Understand the internal controls over the approval of sales order and shipping and test the effectiveness of those internal controls;
3. Sample the sales documents to inspect sales details, including related transaction documents and cash collections in the audited period and the subsequent period;
4. Verify if any deviant occurred in those parties when the sales were recorded and cash was received;
5. Assess the significant sales return or sales discount taking place in the subsequent period.

Valuation of inventory

The Company provides ROM products, NOR Flash, and NAND Flash, which are widely used in consumer electronics. As of December 31, 2017, inventory was NT\$9,796,393 thousand, accounting for 22% of the total assets. With the current rapid changes in technology and the improvements in manufacturing technologies, demand for memory chip market could change significantly and thereby, results in inventory obsolescence. Since inventory valuation and estimates of net realizable value of inventory are subject to management's judgment, they are considered as accounting estimates with relatively high uncertainty. Therefore, valuation of inventory has been identified as a key audit matter. Please refer to notes 4 (e), 5 (b), and 10 to the financial statements for the details of accounting policy, accounting judgment, key sources of estimation uncertainty and the related information about the valuation of inventory.

Our key audit procedures performed in respect of the above area included the following:

1. We understood and assessed the adequacy of the policy and procedures for the inventory valuation adopted by the management.
2. We obtained data on the assessment of lower of cost or net realizable value and selected sample data and we tested the reasonableness of net realizable value by comparing inventory carrying amounts to recent selling prices; we tested the reasonableness of allowance for inventory loss by comparing net realizable value with carrying amounts. We obtained the inventory aging report and we tested the accuracy and completeness of the report by agreeing the age interval, quantity, and amount to the supporting documents of inbound inventory. We assessed the reasonableness of allowance for inventory loss by recalculating the amount in accordance with the stated valuation policy for the inventory.
3. We performed a retrospective review of inventory movements to evaluate the reasonableness of inventory obsolescence reserve policy and policy on scrapping of inventories.

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

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

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

Those charged with governance, including the audit committee, 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 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 a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

The engagement partners on the audit resulting in this independent auditors' report are Ming Hui Chen and Ching Pin Shih.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 16, 2018

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.

MACRONIX INTERNATIONAL CO., LTD.

PARENT COMPANY ONLY BALANCE SHEETS

DECEMBER 31, 2017 AND 2016

(In Thousands of New Taiwan Dollars)

ASSETS	2017		2016	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4, 6 and 30)	\$ 7,438,187	17	\$ 5,322,777	15
Notes receivable and trade receivables, net (Notes 4, 9, 30 and 32)	3,990,528	9	2,572,614	7
Receivables from related parties, net (Notes 4, 30 and 31)	2,039,793	5	1,379,769	4
Other receivables (Notes 9, 30 and 31)	126,544	-	116,657	-
Inventories (Notes 4 and 10)	9,796,393	22	6,993,383	20
Other current assets (Note 15)	184,112	-	177,686	1
Total current assets	<u>23,575,557</u>	<u>53</u>	<u>16,562,886</u>	<u>47</u>
NON-CURRENT ASSETS				
Available-for-sale financial assets - non-current (Notes 4, 7 and 30)	1,349,993	3	859,250	3
Financial assets measured at cost - non-current (Notes 4, 8 and 30)	58,500	-	58,500	-
Investment accounted for using equity method (Notes 4, 11 and 30)	2,249,939	5	1,898,183	5
Property, plant and equipment (Notes 4, 12 and 32)	15,781,321	36	14,974,723	42
Intangible assets (Notes 4 and 13)	44,149	-	21,945	-
Deferred tax assets (Notes 4 and 24)	992,838	2	992,838	3
Other financial assets - non-current (Notes 4, 14, 30 and 32)	158,383	1	140,654	-
Total non-current assets	<u>20,635,123</u>	<u>47</u>	<u>18,946,093</u>	<u>53</u>
TOTAL	<u>\$ 44,210,680</u>	<u>100</u>	<u>\$ 35,508,979</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Notes 16 and 30)	\$ -	-	\$ 400,000	1
Notes payable and trade payables (Notes 17 and 30)	2,786,652	6	2,591,481	7
Payables to related parties (Notes 30 and 31)	3,414,139	8	1,139,684	3
Accrued employees' compensation and remuneration of directors (Notes 23 and 30)	1,130,162	3	-	-
Payables for purchases of equipment (Note 30)	673,604	1	168,686	1
Other payables (Notes 18 and 30)	1,329,159	3	1,049,752	3
Other payables to related parties (Notes 30 and 31)	170,106	-	130,346	-
Provisions - current (Notes 4 and 19)	294,513	1	206,789	1
Current portion of long-term borrowings (Notes 16, 30 and 32)	3,178,666	7	4,280,876	12
Other current liabilities	101,632	-	54,544	-
Total current liabilities	<u>13,078,633</u>	<u>29</u>	<u>10,022,158</u>	<u>28</u>
NON-CURRENT LIABILITIES				
Long-term borrowings (Notes 16, 30 and 32)	4,859,729	11	5,635,544	16
Net defined benefit liabilities (Notes 4 and 20)	1,609,941	4	1,532,286	4
Other non-current liabilities	6,715	-	1,277	-
Total non-current liabilities	<u>6,476,385</u>	<u>15</u>	<u>7,169,107</u>	<u>20</u>
Total liabilities	<u>19,555,018</u>	<u>44</u>	<u>17,191,265</u>	<u>48</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 4 and 21)				
Share capital				
Ordinary shares	18,049,385	41	36,153,535	102
Share capital to be cancelled	(1,627)	-	(7,654)	-
Total share capital	<u>18,047,758</u>	<u>41</u>	<u>36,145,881</u>	<u>102</u>
Capital surplus	(207,088)	-	340,713	1
Retained earnings				
Unappropriated earnings (accumulated deficit)	5,413,602	12	(18,651,070)	(53)
Other equity	1,560,451	3	641,251	2
Treasury shares	(159,061)	-	(159,061)	-
Total equity	<u>24,655,662</u>	<u>56</u>	<u>18,317,714</u>	<u>52</u>
TOTAL	<u>\$ 44,210,680</u>	<u>100</u>	<u>\$ 35,508,979</u>	<u>100</u>

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

MACRONIX INTERNATIONAL CO., LTD.

PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars, Except Earnings (Loss) Per Share)

	2017		2016	
	Amount	%	Amount	%
NET OPERATING REVENUE (Notes 4, 22 and 31)	\$ 33,500,949	100	\$ 23,733,107	100
OPERATING COSTS (Notes 4, 10, 20, 23 and 31)	<u>21,529,215</u>	<u>65</u>	<u>18,338,141</u>	<u>78</u>
GROSS PROFIT	11,971,734	35	5,394,966	22
UNREALIZED GAIN ON TRANSACTIONS WITH SUBSIDIARIES AND ASSOCIATES (Note 4)	<u>(34,639)</u>	<u>-</u>	<u>(18,139)</u>	<u>-</u>
REALIZED GROSS PROFIT	<u>11,937,095</u>	<u>35</u>	<u>5,376,827</u>	<u>22</u>
OPERATING EXPENSES (Notes 4, 20, 23 and 31)				
Selling and marketing expenses	894,865	3	755,398	3
General and administrative expenses	1,477,606	4	1,139,387	5
Research and development expenses	<u>4,034,615</u>	<u>12</u>	<u>3,605,424</u>	<u>15</u>
Total operating expenses	<u>6,407,086</u>	<u>19</u>	<u>5,500,209</u>	<u>23</u>
INCOME (LOSS) FROM OPERATIONS	<u>5,530,009</u>	<u>16</u>	<u>(123,382)</u>	<u>(1)</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Notes 23 and 31)	119,197	-	127,843	1
Other gains and losses (Note 23)	(124,920)	-	66,403	-
Finance costs (Notes 4 and 23)	(215,602)	(1)	(304,144)	(1)
Share of loss of subsidiaries and associates (Notes 4 and 11)	<u>209,163</u>	<u>1</u>	<u>(241,656)</u>	<u>(1)</u>
Total non-operating income and expenses	<u>(12,162)</u>	<u>-</u>	<u>(351,554)</u>	<u>(1)</u>
INCOME (LOSS) BEFORE INCOME TAX FROM CONTINUING OPERATIONS	5,517,847	16	(474,936)	(2)
INCOME TAX EXPENSE (BENEFIT) (Notes 4 and 24)	<u>-</u>	<u>-</u>	<u>(231,923)</u>	<u>(1)</u>
NET INCOME (LOSS) FOR THE YEAR	<u>5,517,847</u>	<u>16</u>	<u>(243,013)</u>	<u>(1)</u>

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MACRONIX INTERNATIONAL CO., LTD.

PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars, Except Earnings (Loss) Per Share)

	2017		2016	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	\$ (91,188)	-	\$ (103,784)	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations (Notes 4 and 21)	(76,541)	-	(57,186)	-
Unrealized gain on available-for-sale financial assets (Notes 4 and 21)	490,743	1	10,289	-
Exchange differences on translating foreign operations of associates accounted for using the equity method (Notes 4 and 21)	(77)	-	(302)	-
Unrealized gain on available-for-sale financial assets of associates accounted for using the equity method (Notes 4 and 21)	<u>283,717</u>	<u>1</u>	<u>75,117</u>	<u>-</u>
Other comprehensive income (loss) for the year, net of income tax	<u>606,654</u>	<u>2</u>	<u>(75,866)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	<u>\$ 6,124,501</u>	<u>18</u>	<u>\$ (318,879)</u>	<u>(1)</u>
EARNINGS (LOSS) PER SHARE (Note 25)				
Basic	<u>\$ 3.12</u>		<u>\$ (0.14)</u>	
Diluted	<u>\$ 3.03</u>		<u>\$ (0.14)</u>	

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

MACRONIX INTERNATIONAL CO., LTD.

**PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)**

	Share Capital			Capital Surplus	Unappropriated Earnings (Accumulated Deficit)	Other Equity				Total Equity
	Shares (Thousands)	Ordinary Shares	Share Capital to be Cancelled			Exchange Differences on Translating Foreign Operations	Unrealized Gain from Available-for-sale Financial Assets	Employee Unearned Compensation	Treasury Shares	
BALANCE AT JANUARY 1, 2016	3,617,849	\$ 36,178,489	\$ (6,898)	\$ 54,936	\$(18,304,273)	\$ 48,923	\$ 871,368	\$ (263,407)	\$ (159,061)	\$ 18,420,077
Net loss for the year ended December 31, 2016	-	-	-	-	(243,013)	-	-	-	-	(243,013)
Other comprehensive income (loss) for year ended December 31, 2016, net of income tax	-	-	-	-	(103,784)	(57,488)	85,406	-	-	(75,866)
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	(346,797)	(57,488)	85,406	-	-	(318,879)
Issue of restricted shares to employees	-	-	-	256,420	-	-	-	(256,420)	-	-
Compensation cost of restricted shares for employees	-	-	-	636	-	-	-	212,869	-	213,505
Retirement of restricted shares for employees	(2,495)	(24,954)	(756)	25,710	-	-	-	-	-	-
Change in capital surplus from investments in subsidiaries accounted for using equity method	-	-	-	3,011	-	-	-	-	-	3,011
BALANCE AT DECEMBER 31, 2016	3,615,354	36,153,535	(7,654)	340,713	(18,651,070)	(8,565)	956,774	(306,958)	(159,061)	18,317,714
Net income for the year ended December 31, 2017	-	-	-	-	5,517,847	-	-	-	-	5,517,847
Other comprehensive income (loss) for year ended December 31, 2017, net of income tax	-	-	-	-	(91,188)	(76,618)	774,460	-	-	606,654
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	5,426,659	(76,618)	774,460	-	-	6,124,501
Capital reduction to cover accumulated deficit	(1,865,107)	(18,651,070)	-	-	18,651,070	-	-	-	-	-
Issue of restricted shares to employees	57,476	574,756	-	(561,699)	(13,057)	-	-	-	-	-
Compensation cost of restricted shares for employees	-	-	-	(8,258)	-	-	-	221,358	-	213,100
Retirement of restricted shares for employees	(2,784)	(27,836)	6,027	21,809	-	-	-	-	-	-
Change in capital surplus from investments in subsidiaries accounted for using equity method	-	-	-	347	-	-	-	-	-	347
BALANCE AT DECEMBER 31, 2017	1,804,939	\$ 18,049,385	\$ (1,627)	\$ (207,088)	\$ 5,413,602	\$ (85,183)	\$ 1,731,234	\$ (85,600)	\$ (159,061)	\$ 24,655,662

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

MACRONIX INTERNATIONAL CO., LTD.

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

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	\$ 5,517,847	\$ (474,936)
Adjustments for:		
Depreciation expense	1,922,176	1,924,570
Amortization expense	26,932	57,431
Impairment loss recognized on trade receivables	-	16,812
Finance costs	215,602	304,144
Interest income	(15,750)	(13,453)
Dividend income	(84,181)	(83,648)
Compensation cost of employee restricted shares	213,100	213,505
Share of loss of subsidiaries and associates	(209,163)	241,656
Gain on disposal of property, plant and equipment	(10,164)	(6,061)
Loss on disposal of investments	2,517	-
Unrealized gain on transactions with subsidiaries and associates	34,639	18,139
Net loss (gain) on foreign currency exchange	279,218	(163,657)
Changes in operating assets and liabilities		
Notes receivable and trade receivables	(1,500,845)	(156,397)
Receivables from related parties	(675,022)	(421,306)
Other receivables	(9,068)	(15,783)
Inventories	(2,803,010)	2,296,556
Other current assets	(6,426)	(14,716)
Financial liability held for trading	-	(717)
Notes payable and trade payables	212,623	863,906
Payables to related parties	2,287,080	1,222,952
Payables for employees' compensation and director's remuneration	1,130,162	-
Other payables	290,650	(124,349)
Other payables to related parties	41,028	9,162
Provisions	93,264	46,440
Other current liabilities	47,198	10,872
Net defined benefit liabilities	(13,533)	8,267
Cash generated from operations	6,986,874	5,759,389
Interest received	15,071	13,691
Dividend received	84,181	83,648
Interest paid	(219,644)	(309,605)
Income tax paid	-	(36,045)
Net cash generated from operating activities	<u>6,866,482</u>	<u>5,511,078</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of financial assets measured at cost	5,357	-
Payments for property, plant and equipment	(2,210,532)	(918,606)
Proceeds from disposal of property, plant and equipment	10,819	6,090
Increase in refundable deposits	(208)	-

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MACRONIX INTERNATIONAL CO., LTD.

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

	2017	2016
Decrease in refundable deposits	\$ 77	\$ 294
Payments for intangible assets	(49,136)	(10,091)
Decrease in other financial assets	<u>4,997</u>	<u>924</u>
Net cash used in investing activities	<u>(2,238,626)</u>	<u>(921,389)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	971,597	3,360,037
Repayments of short-term borrowings	(1,371,597)	(4,483,826)
Proceeds from long-term borrowings	10,386,886	4,692,375
Repayments of long-term borrowings	(12,265,577)	(7,324,840)
Proceeds from guarantee deposits received	6,495	150
Repayments of guarantee deposits received	<u>(987)</u>	<u>(226)</u>
Net cash used in financing activities	<u>(2,273,183)</u>	<u>(3,756,330)</u>
EFFECT OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES		
	<u>(239,263)</u>	<u>37,606</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,115,410	870,965
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>5,322,777</u>	<u>4,451,812</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 7,438,187</u>	<u>\$ 5,322,777</u>

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

MACRONIX INTERNATIONAL CO., LTD.

NOTES TO PARENT COMPANY ONLY FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

Macronix International Co., Ltd. (the Company) was incorporated in the Republic of China (ROC) on December 9, 1989 and commenced business in December 1989. The Company operates principally as a designer, manufacturer and supplier of integrated circuits (ICs) and memory chips. The Company also performs design, research and development, consultation and trade of relevant products.

The Company's shares have been listed on the Taiwan Stock Exchange (TWSE) since March 15, 1995.

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

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were reported to the Company's board of directors and authorized for issue on March 16, 2018.

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

- a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the IFRSs) endorsed and issued into effect by the FSC

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

- 1) Amendment to IAS 36 "Recoverable Amount Disclosures for Non-financial Assets"

The amendment clarifies 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, if the recoverable amount of an item of property, plant and equipment for which impairment loss has been recognized or reversed is fair value less costs of disposal, the Company is required to disclose the fair value hierarchy. If the fair value measurements are categorized within Level 2 or Level 3, the valuation technique and key assumptions used to measure the fair value are disclosed. The discount rate used is disclosed if such fair value less costs of disposal is measured by using present value technique. The amendment should be applied retrospectively from January 1, 2017.

2) Annual Improvements to IFRSs: 2010-2012 Cycle

Several standards, including IFRS 2 “Share-based Payment”, IFRS 3 “Business Combinations” and IFRS 8 “Operating Segments”, were amended in this annual improvement.

The amended IFRS 2 changes the definitions of “vesting condition” and “market condition” and adds definitions for “performance condition” and “service condition”. The amendment clarifies that a performance target can be based on the operations (i.e. a non-market condition) of the Company or another entity in the same group or the market price of the equity instruments of the Company or another entity in the same group (i.e. a market condition); that a performance target can relate either to the performance of the Company as a whole or to some part of it (e.g. a division); and that the period for achieving a performance condition must not extend beyond the end of the related service period. In addition, a share market index target is not a performance condition because it not only reflects the performance of the Company, but also of other entities outside the Company. The share-based payment arrangements with market conditions, non-market conditions or non-vesting conditions are accounted for differently, and the aforementioned amendment should be applied to those share-based payments granted in 2017.

IFRS 3 was amended to clarify that contingent consideration should be measured at fair value, irrespective of whether the contingent consideration is a financial instrument within the scope of IFRS 9 or IAS 39. Changes in fair value should be recognized in profit or loss. The amendment should be applied prospectively to business combination with acquisition date on or after January 1, 2017.

The amended IFRS 8 requires the Group to disclose the judgments made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have “similar economic characteristics”. The amendment also clarifies that a reconciliation of the total of the reportable segments’ assets to the entity’s assets should only be provided if the segments’ assets are regularly provided to the chief operating decision-maker. The judgements made in applying aggregation criteria should be disclosed retrospectively upon initial application of the amendment in 2017 (refer to Note 39 to the consolidated financial statements for the year ended December 31, 2017).

When the amended IFRS 13 becomes effective in 2017, the short-term receivables and payables with no stated interest rate should be measured at their invoice amounts without discounting, if the effect of not discounting is immaterial.

IAS 24 “Related Party Disclosures” was amended to clarify that a management entity providing key management personnel services to the Company is a related party of the Company. Consequently, the Company is required to disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

3) Annual Improvements to IFRSs: 2011-2013 Cycle

Several standards, including IFRS 3 and IFRS 13, were amended in this annual improvement.

The scope in IFRS 13 of the portfolio exception for measuring the fair value of a company of 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 do not meet the definitions of financial assets or financial liabilities within IAS 32.

4) Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”

The entity should use appropriate depreciation and amortization method to reflect the pattern in which the future economic benefits of the property, plant and equipment and intangible asset are expected to be consumed by the entity.

The amended IAS 16 “Property, Plant and Equipment” stipulates that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate. The amended standard does not provide any exception from this requirement.

The amended IAS 38 “Intangible Assets” clarifies there is a rebuttable presumption that an amortization method that is based on revenue that is generated by an activity that includes the use of an intangible asset is not appropriate. This presumption can be overcome only in the following limited circumstances:

- a) In which the intangible asset is expressed as a measure of revenue (for example, the contract that specifies the entity’s use of the intangible asset will expire upon achievement of a revenue threshold); or
- b) When it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

5) Annual Improvements to IFRSs: 2012-2014 Cycle

Several standards including IFRS 5 “Non-current assets held for sale and discontinued operations”, IFRS 7, IAS 19 and IAS 34 were amended in this annual improvement. IFRS 5 was amended to clarify that reclassification between non-current assets (or disposal group) “held for sale” and non-current assets “held for distribution to owners” does not constitute a change to a plan of sale or distribution. Therefore, previous accounting treatment is not reversed. The amendment also explains that assets that no longer meet the criteria for “held for distribution to owners” and do not meet the criteria for “held for sale” should be treated in the same way as assets that cease to be classified as held for sale. The amendment should be applied prospectively to transactions that occur on or after January 1, 2017.

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

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed and issued into effect by the FSC. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include emphasis on certain recognition and measurement considerations and add 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, joint 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 transaction. If the transaction or balance with a specific related party is 10% or more of the Company’s respective total transaction or balance, such transaction should be separately disclosed by the name of each related party.

When the amendments are applied retrospectively from January 1, 2017, the disclosures of related party transactions are enhanced. Refer to Note 31 for related disclosures.

- b. The Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed by the FSC for application starting from 2018

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date of IFRS 9 and Transition Disclosures”	January 1, 2018
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendments to IFRS 15 “Clarifications to IFRS15 Revenue from Contracts with Customers”	January 1, 2018
Amendment to IAS 7 “Disclosure Initiative”	January 1, 2017
Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 40 “Transfers of investment property”	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

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

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

1) Annual Improvements to IFRSs 2014-2016 Cycle

Several standards, including IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures,” were amended in this annual improvement.

The amendment to IFRS 12 clarifies that when an entity’s interest in a subsidiary, a joint venture or an associate is classified as held for sale or is included in a disposal group that is classified as held for sale, the entity is not required to disclose summarized financial information of that subsidiary, joint venture or associate in accordance with IFRS 12. The Company will apply the aforementioned amendments retrospectively.

2) IFRS 9 “Financial Instruments” and related amendment

Classification, measurement and impairment of financial assets

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. Under IFRS 9, the requirement for the classification of financial assets is stated below.

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

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

Except for the above, all other financial assets are measured at fair value through profit or loss. However, the Company may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

The Company analyzed the facts and circumstances of its financial assets that exist at December 31, 2017 and performed the assessment of the impact of IFRS 9 on the classification and measurement of financial assets. Under IFRS 9:

- a) Listed shares, emerging market shares, and unlisted shares classified as available-for-sale will be designated as at fair value through other comprehensive income and the fair value gains or losses accumulated in other equity will be transferred directly to retained earnings instead of being reclassified to profit or loss on disposal. Besides, unlisted shares measured at cost will be measured at fair value instead;
- b) Debt investments classified as debt investments with no active market and measured at amortized cost will be classified as measured at amortized cost under IFRS 9 because on initial recognition, the contractual cash flows that are solely payments of principal and interest on the principal outstanding and these investments are held within a business model whose objective is to collect the contractual cash flows.

IFRS 9 requires impairment loss on financial assets to be recognized by using the "Expected Credit Losses Model". The loss allowance is required for financial assets measured at amortized cost, investments in debt instruments measured at FVTOCI, lease receivables, contract assets arising from IFRS 15 "Revenue from Contracts with Customers", certain written loan commitments and financial guarantee contracts. A loss allowance for the 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition and is not low. However, a loss allowance for full lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

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

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

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

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

	Carrying Amount as of December 31, 2017	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2018
<u>Impact on assets, liabilities and equity</u>			
Financial assets at fair value through profit or loss - non-current	\$ -	\$ 1,769,520	\$ 1,769,520
Available-for-sale financial assets - non-current	1,349,993	(1,349,993)	-
Financial assets measured at cost - non-current	58,500	(58,500)	-
Trade receivables from unrelated parties	3,990,528	-	3,990,528
Investment accounted for using equity method (Note)	2,249,939	32,650	2,282,589
Others	<u>36,561,720</u>	<u>-</u>	<u>36,561,720</u>
Total assets	<u>\$44,210,680</u>	<u>\$ 393,677</u>	<u>\$44,604,357</u>
Total liabilities	<u>\$19,555,018</u>	<u>\$ -</u>	<u>\$19,555,018</u>
Retained earnings	\$ 5,413,602	\$ 2,158,766	\$ 7,572,368
Other equity	1,560,451	(1,765,089)	(204,638)
Others	<u>17,681,609</u>	<u>-</u>	<u>17,681,609</u>
Total equity	<u>\$24,655,662</u>	<u>\$ 393,677</u>	<u>\$25,049,339</u>

Note: The adjustments were due to the financial assets measured at cost - non-current held by the subsidiaries accounted for under equity method.

3) 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 recognizes 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.

IFRS 15 and the related amendments require that when another party is involved in providing goods or services to a customer, the Company is a principal if it controls the specified good or service before that good or service is transferred to a customer. Since a specified good or service is a distinct good or service, the Company determines whether it is a principal or an agent for each specified good or service.

The Company is a principal if it obtains control of any one of the following:

- a) The good or another asset that it then transfers to the customer.
- b) The right to a service to be performed by other party, which gives the Company the ability to direct that party to provide the service to the customer on its behalf.
- c) The good or service from the other party that it then combines with the other goods or services in providing the specified good or service to the customer.

Indicators to support the Company's assessment of whether it controls a specified good or service include, but are not limited to, the following:

- a) The Company is primarily responsible for fulfilling the promise to provide the specified good or service.
- b) The Company has inventory risk before or after the specified good or service is transferred to the customer.
- c) The Company has discretion in establishing the price of the specified good or service.

For a sale with a right of return, the Company will recognize a refund liability (other liability) and a right to recover a product (other asset) when recognizing revenue. Currently, return provisions are recognized when recognizing revenue.

The Company elects to retrospectively apply IFRS 15 to contracts that are not complete on January 1, 2018 and recognize the cumulative effect of the change in the retained earnings on January 1, 2018.

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

	Carrying Amount as of December 31, 2017	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2018
Provisions - current	\$ 294,513	\$ (220,546)	\$ 73,967
Contract liabilities - current	-	52,683	52,683
Other current liabilities	101,632	<u>167,863</u>	269,495
Total liabilities impact		<u>\$ -</u>	

4) IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

IAS 21 stipulated that a foreign currency transaction shall be recorded on initial recognition in the functional currency by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. IFRIC 22 further explains that the date of the transaction is the date on which an entity recognizes a non-monetary asset or non-monetary liability from payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine the date of the transaction for each payment or receipt of advance consideration.

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

Except for the above impact, as of the date the financial statements were authorized for issue, the Company is assessing the possible impact that the application of other standards and interpretations will have on the Company’s financial position and financial performance.

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

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 “Prepayment Features with Negative Compensation”	January 1, 2019 (Note 2)
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 16 “Leases”	January 1, 2019 (Note 3)
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures”	January 1, 2019
IFRIC 23 “Uncertainty Over Income Tax Treatments”	January 1, 2019

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

Note 2: The FSC permits the election for early adoption of the amendments starting from 2018.

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

1) IFRS 16 “Leases”

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 and a number of related interpretations.

Under IFRS 16, if the Company is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for low-value and short-term leases. The Company may elect to apply the accounting method similar to the accounting for operating leases under IAS 17 to low-value and short-term leases. On the consolidated statements of comprehensive income, the Company should present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed by using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the interest portion are classified within operating activities.

The application of IFRS 16 is not expected to have a material impact on the accounting of the Company as lessor.

When IFRS 16 becomes effective, the Company may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the initial application of this Standard recognized at the date of initial application.

2) IFRIC 23 “Uncertainty Over Income Tax Treatments”

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

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

3) Annual Improvements to IFRSs 2015-2017 Cycle

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

a. Statement of Compliance

The parent company only financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

b. Basis of Preparation

The financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value.

The fair value measurements, which are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and base on the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- 3) Level 3 inputs are unobservable inputs for an asset or liability.

When preparing its parent company only financial statements, the Company used equity method to account for its investment in subsidiaries and associates. In order for the amounts of the net profit for the year, other comprehensive income for the year and total equity in the parent company only financial statements to be the same with the amounts attributable to the owner of the Company in its consolidated financial statements, adjustments arising from the differences in accounting treatment between parent company only basis and consolidated basis were made to investments accounted for by equity method, share of profit or loss of subsidiaries and associates, share of other comprehensive income of subsidiaries and associates and related equity items, as appropriate, in the parent company only financial statements.

c. Classification of current and non-current assets and liabilities

Current assets include:

- 1) Assets held primarily for the purpose of trading;
- 2) Assets expected to be realized within 12 months after the reporting period; and
- 3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within 12 months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are authorized for issue; and
- 3) Liabilities for which the Company does not have an unconditional right to defer settlement for at least 12 months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Assets and liabilities that are not classified as current are classified as non-current.

d. Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising from the retranslation of non-monetary items are included in profit or loss for the 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 cases, the exchange differences are also recognized directly in other comprehensive income.

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

For the purpose of presenting parent company only financial statements, the functional currencies of the Company and the Group entities (including subsidiaries and associates that use currency different from the currency of the Company) are translated into the presentation currency - the New Taiwan dollar as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income.

e. Inventories

Inventories consist of raw materials, supplies, spare parts, finished goods, merchandise 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 standard cost and adjusted to approximate weighted - average cost on the balance sheet date.

f. Investments in subsidiaries

The Company uses the equity method to account for its investments 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 interest in a subsidiary that do not result in the Company losing control of the subsidiary are equity transactions. The Company recognizes directly in equity any difference between the carrying amount of the investment and the fair value of the consideration paid or received.

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

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets and liabilities of a subsidiary 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 is recognized immediately in profit or loss.

The Company assesses its investment for any impairment by comparing the carrying amount with the estimated recoverable amount as assessed based on the entire financial statements of the invested company. Impairment loss is recognized when the carrying amount exceeds the recoverable amount.

If the recoverable amount of the investment subsequently increases, the Company recognizes the reversal of the impairment loss; the adjusted post-reversal carrying amount should not exceed the carrying amount that would have been recognized (net of amortization or depreciation) had no impairment loss been recognized in prior years. An impairment loss recognized on goodwill cannot be reversed in a subsequent period.

When the Company loses control of a subsidiary, it recognizes the investment retained in the former subsidiary at its fair value at the date when control is lost. The difference between the fair value of the retained investment plus any consideration received and the carrying amount of the previous investment at the date when control is lost is recognized as a gain or loss in profit or loss. Besides, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Company had directly disposed of the related assets or liabilities.

Profits or losses resulting from downstream transactions are eliminated in full only in the parent's company only financial statements. Profits and losses resulting from upstream transactions and transactions between subsidiaries are recognized only in the parent's company financial statements only to the extent of interests in the subsidiaries that are not related to the Company.

g. 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.

The Company uses the equity method to account for its investments in associates.

Under the equity method, investments 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 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 - changes in the Company's share of equity of associates. 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 substance, 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 an entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the financial statements only to the extent that interests in the associate are not related to the Company.

h. Property, plant and equipment

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

Depreciation on property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effects of any changes in estimates accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

i. Intangible assets

1) Intangible assets acquired separately

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. 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. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

2) Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the development phase of an internal project is recognized if, and only if, all of the following have been demonstrated:

- a) The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- b) The intention to complete the intangible asset and use or sell it;
- c) The ability to use or sell the intangible asset;
- d) How the intangible asset will generate probable future economic benefits;

- e) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- f) The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Subsequent to initial recognition, they are measured on the same basis as intangible assets that are acquired separately.

3) Derecognition of intangible assets

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss.

j. Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, 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. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the smallest group of cash-generating units on a reasonable and consistent basis of allocation.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

The 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 is subsequently 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 in profit or loss.

k. Financial instruments

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

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

Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a settlement date basis.

1) Measurement category

Financial assets are classified into the following categories: Financial assets at fair value through profit or loss, available-for-sale financial assets, and loans and receivables.

a) Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is either held for trading or it is 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. The net gain or loss recognized in profit or loss does not incorporate any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 30.

Investments in equity instruments under financial assets at fair value through profit or loss 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 instruments are subsequently measured at cost less any identified impairment loss at the end of each reporting period and 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 the carrying amount and the fair value is recognized in profit or loss.

b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are measured at fair value. Changes in the carrying amounts of available-for-sale monetary financial assets relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount 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 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 other comprehensive income on financial assets. Any impairment losses are recognized in profit and loss.

c) Loans and receivables

Loans and receivables (including trade receivables, cash and cash equivalent, other receivables and long-term receivables) are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivables when the effect of discounting is immaterial.

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

2) 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, that the estimated future cash flows of the investment have been affected.

For financial assets carried at amortized cost, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. 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 of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, 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.

For financial assets measured at amortized cost, 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.

For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, breach of contract, such as a default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or financial re-organization, or the disappearance of an active market for that financial asset because of financial difficulties.

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 is not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

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 a trade receivable and other receivables are considered uncollectible, it 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 except for uncollectable trade receivables that are written off against the allowance account.

3) Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the financial asset to another party.

If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and any associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

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 is recognized in profit or loss.

Equity instruments

Equity instruments issued by the company are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial Liabilities

1) Subsequent measurement

Except the following situation, all financial liabilities are measured at amortized cost using the effective interest method:

a) Financial liabilities at fair value through profit or loss

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 held for trading are stated at fair value, with any gain or loss arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any interest or dividend paid on the financial liability. Fair value is determined in the manner described in Note 30.

2) Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

Derivative financial instruments

The Company enters into foreign exchange forward contracts to manage its exposure to foreign exchange rate risks, including foreign exchange forward contracts.

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.

l. Provisions

Provisions are measured at the best estimate of the discounted cash flows 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.

m. 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. Allowance for sales returns and liability for returns are recognized at the time of sale based on the seller's reliable estimate of future returns and based on past experience and other relevant factors.

1) Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- a) The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- b) The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- c) The amount of revenue can be measured reliably;
- d) It is probable that the economic benefits associated with the transaction will flow to the Company; and
- e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Company does not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of risks and rewards of materials ownership.

2) Rendering of services

Service income is recognized when services are provided.

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract. The stage of completion of the contract is determined by the contractual rates as labor hours and direct expenses are incurred.

3) Royalties

Royalty revenue is recognized on an accrual basis in accordance with the substance of the relevant agreement provided that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Royalty arrangements that are based on production, sales and other measures are recognized by reference to the underlying arrangement.

4) Dividend and interest income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established provided that it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

n. 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 leases.

1) The Company as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

2) The Company as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

3) Leasehold land for own use

When a lease includes both land and building elements, the Company assesses the classification of each element separately as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Company. The minimum lease payments are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

If the allocation of the lease payments can be made reliably, each element is accounted for separately in accordance with its lease classification. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

o. Borrowing costs

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

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

p. Employee benefits

1) 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.

2) Retirement benefits

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

Defined benefit costs (including service cost, net interest and remeasurement) under defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost) and net interest on the net defined benefit liability are recognized as employee benefit expenses in the period they occur. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling 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 accumulated deficit 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.

3) 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.

4) Termination benefits

A liability for a termination benefit is recognized at the earlier of when the Company can no longer withdraw the offer of the termination benefit and when the Company recognizes any related restructuring costs.

q. Share-based payment arrangements

The fair value at the grant date of the restricted shares for employees is expensed on a straight-line basis over the vesting period, based on the Company's best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in other equity - unearned employee benefit. It is recognized as an expense in full at the grant date if vesting immediately.

When restricted shares for employees are issued, other equity - unearned employee benefits are recognized on the grant date, with a corresponding increase in capital surplus - restricted shares for employees.

At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the capital surplus - employee share options or capital surplus-restricted share option.

r. Treasury stock

The parent company's stock held by subsidiaries is reclassified to treasury stock from investment accounted for using equity method and recognized with the original investment cost. Cash dividends earned by subsidiaries are write-off with investment income and adjust capital surplus-treasury stock transaction.

s. Taxation

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

1) 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.

2) Deferred tax

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

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carry forward and unused tax credits for purchases of machinery, equipment and technology, research and development expenditures and personnel training expenditures to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the year 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.

3) Current and deferred taxes

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity, respectively.

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 years.

a. Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Company takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

b. Write-down of inventory

The net realizable value of inventory is the estimated selling price in the ordinary course of business less the estimated costs of completion and disposal. The estimation of net realizable value was based on current market conditions and the historical experience with product sales of a similar nature. Changes in market conditions may have a material impact on the estimation of net realizable value.

c. Useful lives of property, plant and equipment

As described in Note 4 (h), the Company reviews the estimated useful lives of property, plant and equipment at the end of each reporting period. Based on the valuation report released in October, 2015 provided by China Credit Information Service, Ltd., the actual useful lives of certain items of property, plant and equipment have exceeded their estimated useful lives. Due to the consideration of physical depletion, functional depletion and economic depletion, the management determined that the useful lives of machinery equipment and R&D equipment, facility equipment and main buildings should be extended from 6 years to 11 years, 6 years to 15 years, and 21 years to 31 years, respectively, beginning January 1, 2016.

The financial effect of this reassessment, assuming the assets are held until the end of their extended useful lives, is the decrease in the depreciation expense for the years ended December 31, 2016, 2017, and 2018 by the following amounts:

Year ended 2016	\$ 3,775,234
Year ended 2017	2,558,159
Year ended 2018	240,530

d. Income taxes

As of December 31, 2017 and 2016, the carrying amount of deferred tax assets in relation to unused losses carryforward both were NT\$992,838 thousand. As of December 31, 2017 and 2016, no deferred tax asset had been recognized in relation to unused deductible temporary differences, losses carryforward, and investment tax credits amounted to NT\$4,548,926 thousand and NT\$4,850,371 thousand, respectively, due to the unpredictability of future profit streams. The realizability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available. In cases where the actual future profits generated are less than expected, a material

reversal of deferred tax assets may arise, which would be recognized in profit or loss for the period in which such a reversal takes place.

e. Recognition and measurement of defined benefit plans

The net defined liabilities and the resulting defined benefit costs under defined benefit pension plans are calculated using the projected unit credit method. Actuarial assumptions comprise the discount rates, rates of employee turnover, and future salary increase, etc. Changes in economic circumstances and market conditions will affect these assumptions and may have a material impact on the amount of the expense and the liabilities.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2017	2016
Cash on hand	\$ 3	\$ 10
Checking accounts and demand deposits	5,679,020	3,591,851
Cash equivalents		
Time deposits	<u>1,759,164</u>	<u>1,730,916</u>
	<u>\$ 7,438,187</u>	<u>\$ 5,322,777</u>

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2017	2016
<u>Non-current</u>		
Domestic investments		
Listed shares	<u>\$ 1,349,993</u>	<u>\$ 859,250</u>

8. FINANCIAL ASSETS MEASURED AT COST

	December 31	
	2017	2016
<u>Non-current</u>		
Domestic unlisted ordinary shares	<u>\$ 58,500</u>	<u>\$ 58,500</u>
Classified according to financial asset measurement categories		
Available-for-sale financial assets	<u>\$ 58,500</u>	<u>\$ 58,500</u>

Management believed that the fair value of the above unlisted equity investments held by the Company could not reliably measured because the range of reasonable fair value estimates was so significant. Therefore, the fair values were measured at cost less impairment at the end of the reporting period.

9. NOTES RECEIVABLE, TRADE RECEIVABLES AND OTHER RECEIVABLES

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
<u>Notes receivable and trade receivables</u>		
Notes receivable	\$ -	\$ 541
Trade receivables	4,007,340	2,588,885
Less: Allowance for impairment loss	<u>(16,812)</u>	<u>(16,812)</u>
	<u>\$ 3,990,528</u>	<u>\$ 2,572,614</u>
<u>Other receivables</u>		
Tax receivable	\$ 122,219	\$ 110,514
Others	<u>4,325</u>	<u>6,143</u>
	<u>\$ 126,544</u>	<u>\$ 116,657</u>

a. Notes receivable and trade receivables

The average credit period for sales of goods was 60 days. In determining the recoverability of a trade receivable, the Company evaluates each customer's credibility and financial position and considers any change in the credit quality of the trade receivable since the date credit was initially granted to the end of the reporting period.

Before trading any new customer, the Company assesses the potential customer's credit quality and defines credit limits based on an internal credit scoring system.

For the trade receivables balances that were past due at the end of the reporting period, the Company had not recognized an allowance for impairment loss, because there was not a significant change in credit quality and the amounts were still considered recoverable.

The aging of notes receivable and trade receivables was as follows:

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Neither past due nor impaired	\$ 3,908,666	\$ 2,539,620
Past due but not impaired		
Within 60 days	74,791	32,928
61-120 days	5,343	66
Over 120 days	<u>1,728</u>	<u>-</u>
	<u>\$ 3,990,528</u>	<u>\$ 2,572,614</u>

The above aging schedule was based on the past due days from the end of the credit term.

As of December 31, 2017, the Company did not hold collateral for most of its receivables.

The movements of the allowance for doubtful notes receivable and trade receivables were as follows:

	Individually Assessed for Impairment	Assembly Assessed for Impairment	Total
Balance at January 1, 2016	\$ 271	\$ -	\$ 271
Add: Impairment losses recognized on receivables	16,812	-	16,812
Less: Amounts written off during the year as uncollectable	<u>(271)</u>	<u>-</u>	<u>(271)</u>
Balance at December 31, 2016	<u>\$ 16,812</u>	<u>\$ -</u>	<u>\$ 16,812</u>
Balance at January 1 and December 31, 2017	<u>\$ 16,812</u>	<u>\$ -</u>	<u>\$ 16,812</u>

The Company recognized impairment loss on trade receivables amounting to NT\$16,812 thousand as of December 31, 2017. This amount mainly related to customers that were experiencing severe financial difficulties. The Company did not hold any collateral over these balances.

The carrying amount of trade receivables pledged as collateral for borrowings is disclosed in Note 32.

b. Other receivables

No allowance for impairment loss of other receivables was recognized since the other receivables of the Company were not past due and the Company assessed that there was no uncertainty of recoverability.

10. INVENTORIES

	December 31	
	2017	2016
Finished goods and merchandise	\$ 849,581	\$ 856,824
Work in progress	8,360,455	5,780,618
Raw materials	<u>586,357</u>	<u>355,941</u>
	<u>\$ 9,796,393</u>	<u>\$ 6,993,383</u>

The reversal of inventory write-downs resulting from the increase in the net realizable value was included in the cost of goods sold. Previous write-downs were reversed as a result of stock clearance.

	December 31	
	2017	2016
Reversal of inventory write-downs	<u>\$ 527,625</u>	<u>\$ 1,122,776</u>

11. INVESTMENT ACCOUNTED FOR USING EQUITY METHOD

	December 31	
	2017	2016
Investment in subsidiaries	\$ 2,249,939	\$ 1,898,183
Investment in associates	<u>-</u>	<u>-</u>
	<u>\$ 2,249,939</u>	<u>\$ 1,898,183</u>

a. Investments in subsidiaries

	December 31	
	2017	2016
Macronix America Inc. (MXA)	\$ 105,331	\$ 104,045
Macronix (BVI) Co., Ltd. (MXBVI)	2,097,567	1,706,950
Hui Ying Investment Ltd. (Hui Ying)	24,498	23,642
Run Hong Investment Ltd. (Run Hong)	13,968	14,456
Infomax Communication Inc. (INFOMAX)	-	31,532
Mxtran Inc. (Mxtran)	<u>8,575</u>	<u>17,558</u>
	<u>\$ 2,249,939</u>	<u>\$ 1,898,183</u>

Name of Subsidiaries	Proportion of Ownership and Voting Rights	
	December 31	
	2017	2016
MXA	100.00%	100.00%
MXBVI	100.00%	100.00%
Hui Ying	100.00%	100.00%
Run Hong	100.00%	100.00%
INFOMAX (Note 27)	-	97.25%
Mxtran	90.43%	90.43%

For details about the disposal of INFOMAX, refer to Note 30 to the consolidated financial statements for the year ended December 31, 2017.

b. Investments in associates

	December 31	
	2017	2016
Modiotek Co., Ltd. (Modiotek)	<u>\$ -</u>	<u>\$ -</u>

Name of Associate	Nature of Activities	Principal Place of Business	% of Ownership	
			2017	2016
Modiotek	Wi-Fi audio and video transmission devices, ICs and smart security systems	Hsinchu City	Note	20.61

Note: In the May 26, 2017 shareholders' meeting, the decision for the liquidation of Modiotek and the election of its liquidator were resolved. The Company has hence lost its significant influence over Modiotek and Modiotek's subsidiaries.

The investments accounted for by using the equity method.

Summarized financial information in respect of Modiotek is set out below. The summarized financial information below represents amounts shown in the associates' financial statements prepared in accordance with IFRSs adjusted by the Company for equity accounting purposes.

	December 31, 2016
Current assets	\$ 36,997
Non-current assets	4,599
Current liabilities	<u>(59,018)</u>
Equity	<u>\$ (17,422)</u>
Proportion of the Company's ownership	20.61%
Equity attributable to the Company	\$ -
Unrealized gain or loss with associates	<u>-</u>
Carrying amount	<u>\$ -</u>
	For the Year Ended December 31, 2016
Operating revenue	<u>\$ 32,193</u>
Net loss for the year	\$ (69,623)
Other comprehensive loss	<u>(270)</u>
Total comprehensive income for the year	<u>\$ (69,893)</u>

The investments accounted for by the equity method and the share of profit or loss and other comprehensive income of those investments for the year ended December 31, 2016 were based on the associates' audited financial statements for the same year.

12. PROPERTY, PLANT AND EQUIPMENT

	Years Ended December 31, 2017				
<u>Cost</u>	Balance, Beginning of Year	Additions	Disposals	Reclassification	Balance, End of Year
Freehold land	\$ 598,076	\$ -	\$ -	\$ -	\$ 598,076
Buildings	24,159,347	-	1,214	88,129	24,246,262
Machinery equipment	82,761,938	-	510,112	2,946,737	85,198,563
Research and development equipment	5,733,753	-	18,995	(2,550,823)	3,163,935
Transportation equipment	23,490	-	2,650	900	21,740
Leasehold improvements	3,230	-	-	-	3,230
Miscellaneous equipment	1,024,580	-	8,964	42,362	1,057,978
Advance payments and construction in progress	385,626	<u>2,729,429</u>	-	<u>(527,305)</u>	<u>2,587,750</u>
	<u>114,690,040</u>	<u>\$ 2,729,429</u>	<u>\$ 541,935</u>	<u>\$ -</u>	<u>116,877,534</u>

(Continued)

	Years Ended December 31, 2017				
	Balance, Beginning of Year	Additions	Disposals	Reclassification	Balance, End of Year
<u>Accumulated depreciation</u>					
Buildings	\$ 19,430,269	\$ 355,190	\$ 1,214	\$ -	\$ 19,784,245
Machinery equipment	75,819,885	1,377,584	509,457	1,777,310	78,465,322
Research and development equipment	3,444,834	167,206	18,995	(1,773,310)	1,815,735
Transportation equipment	21,767	1,121	2,650	-	20,238
Leasehold improvements	925	538	-	-	1,463
Miscellaneous equipment	997,637	20,537	8,964	-	1,009,210
	<u>99,715,317</u>	<u>\$ 1,922,176</u>	<u>\$ 541,280</u>	<u>\$ -</u>	<u>101,096,213</u>
Carrying amount at December 31, 2017	<u>\$ 14,974,723</u>				<u>\$ 15,781,321</u>

(Concluded)

	Years Ended December 31, 2016				
	Balance, Beginning of Year	Additions	Disposals	Reclassification	Balance, End of Year
<u>Cost</u>					
Freehold land	\$ 598,076	\$ -	\$ -	\$ -	\$ 598,076
Buildings	23,459,321	-	11,324	711,350	24,159,347
Machinery equipment	82,541,070	-	173,199	394,067	82,761,938
Research and development equipment	4,928,530	-	2,574	807,797	5,733,753
Transportation equipment	28,641	-	5,151	-	23,490
Leasehold improvements	3,230	-	-	-	3,230
Miscellaneous equipment	1,033,869	-	15,409	6,120	1,024,580
Advance payments and construction in progress	1,419,888	885,072	-	(1,919,334)	385,626
	<u>114,012,625</u>	<u>\$ 885,072</u>	<u>\$ 207,657</u>	<u>\$ -</u>	<u>114,690,040</u>
<u>Accumulated depreciation</u>					
Buildings	19,098,334	\$ 343,259	\$ 11,324	\$ -	19,430,269
Machinery equipment	74,541,409	1,297,680	173,169	153,965	75,819,885
Research and development equipment	3,356,965	243,691	2,574	(153,248)	3,444,834
Transportation equipment	23,697	3,222	5,152	-	21,767
Leasehold improvements	387	538	-	-	925
Miscellaneous equipment	977,583	36,180	15,409	(717)	997,637
	<u>97,998,375</u>	<u>\$ 1,924,570</u>	<u>\$ 207,628</u>	<u>\$ -</u>	<u>99,715,317</u>
Carrying amount at December 31, 2016	<u>\$ 16,014,250</u>				<u>\$ 14,974,723</u>

For the year ended December 31, 2017, no indication of an impairment loss was present and no impairment assessment was performed. Impairment assessment was performed in the year ended December 31, 2016, but no impairment was recognized.

The above items of property, plant and equipment are depreciated on a straight-line basis over their following estimated useful lives as follows:

Buildings	
Main buildings	21-31 years
Electronic equipment	11 years
Facility equipment	15 years
Machinery equipment	4-11 years
Research and development equipment	11 years
Transportation equipment	5 years
Leasehold improvements	6 years
Miscellaneous equipment	3-6 years

Property, plant and equipment pledged as collateral for bank borrowings are set out in Note 32.

13. INTANGIBLE ASSETS

Item	Year Ended December 31, 2017			
	Balance, Beginning of Year	Additions	Disposals	Balance, End of Period
<u>Cost</u>				
Software	\$ 139,400	\$ 36,136	\$ 110,298	\$ 65,238
Others	-	13,000	-	13,000
	<u>139,400</u>	<u>\$ 49,136</u>	<u>\$ 110,298</u>	<u>78,238</u>
<u>Accumulated amortization</u>				
Software	117,455	\$ 23,682	\$ 110,298	30,839
Others	-	3,250	-	3,250
	<u>117,455</u>	<u>\$ 26,932</u>	<u>\$ 110,298</u>	<u>34,089</u>
Carrying amounts at December 31, 2017	<u>\$ 21,945</u>			<u>\$ 44,149</u>

Item	Year Ended December 31, 2016			
	Balance, Beginning of Year	Additions	Disposals	Balance, End of Period
<u>Cost</u>				
Software	\$ 272,362	\$ 10,091	\$ 143,053	\$ 139,400
<u>Accumulated amortization</u>				
Software	<u>203,077</u>	<u>\$ 57,431</u>	<u>\$ 143,053</u>	<u>117,455</u>
Carrying amounts at December 31, 2016	<u>\$ 69,285</u>			<u>\$ 21,945</u>

Intangible assets are amortized on a straight-line basis over their estimated useful lives as follows:

Software	3 years
Others	3 years

14. OTHER FINANCIAL ASSETS

	December 31	
	2017	2016
<u>Non-current</u>		
Restricted time deposits (Note 32)	\$ 133,810	\$ 137,203
Refundable deposits (Note 28)	2,233	2,101
Long-term receivables	<u>22,340</u>	<u>1,350</u>
	<u>\$ 158,383</u>	<u>\$ 140,654</u>

15. OTHER ASSETS

	<u>December 31</u>	
	2017	2016
<u>Current</u>		
Prepayments	\$ 184,112	\$ 177,686

16. BORROWINGS

a. Short-term borrowings

	<u>December 31</u>	
	2017	2016
<u>Unsecured borrowings</u>		
Unsecured borrowings	\$ -	\$ 400,000
Interest rate	-	1.55%

b. Long-term borrowings

	<u>December 31</u>	
	2017	2016
<u>Secured borrowings</u>		
Loans from financial institutions	\$ 6,638,754	\$ 8,611,118
<u>Unsecured borrowings</u>		
Loans from financial institutions	1,430,000	1,326,667
	8,068,754	9,937,785
Less: Current portion	3,178,666	4,280,876
Less: Arrangement fees	30,359	21,365
Long-term borrowings	\$ 4,859,729	\$ 5,635,544
Interest rate	1.48%-2.21%	1.52%-2.81%

		<u>December 31</u>	
Borrowing Type	Repayment Terms	2017	2016
Secured syndicated loan denominated in NT\$	From December 2017 to December 2022.	\$ 5,300,000	\$ -
Unsecured bank borrowing denominated in NT\$	From June 2017 to July 2018.	800,000	-
Secured bank borrowing denominated in NT\$	From September 2017 to September 2022.	500,000	-
Unsecured bank borrowing denominated in NT\$	From August 2017 to February 2019.	350,000	-

(Continued)

Borrowing Type	Repayment Terms	December 31	
		2017	2016
Secured bank borrowing denominated in NT\$	From September 2015 to September 2018.	\$ 290,000	\$ 470,000
Unsecured bank borrowing denominated in NT\$	From March 2016 to January 2018.	210,000	460,000
Secured bank borrowing denominated in NT\$	From October 2013 to October 2018.	200,000	400,000
Secured bank borrowing denominated in NT\$	From December 2013 to December 2018.	166,962	330,425
Secured bank borrowing denominated in NT\$	From January 2015 to January 2020.	141,694	204,669
Unsecured bank borrowing denominated in NT\$	From February 2017 to April 2018.	70,000	-
Secured bank borrowing denominated in JPY	From March 2014 to March 2019.	34,098	64,024
Secured bank borrowing denominated in NT\$	From August 2015 to February 2018.	6,000	42,000
Secured syndicated loan denominated in NT\$	Pay off in December 2017.	-	6,120,000
Secured bank borrowing denominated in NT\$	Pay off in December 2017.	-	800,000
Secured bank borrowing denominated in NT\$	Pay off in September 2017.	-	100,000
Unsecured bank borrowing denominated in NT\$	Pay off in September 2017.	-	66,667
Secured bank borrowing denominated in NT\$	Pay off in July 2017.	-	80,000
Unsecured bank borrowing denominated in NT\$	Pay off in March 2017.	-	800,000
Less: Current portion		3,178,666	4,280,876
Less: Arrangement fee		<u>30,359</u>	<u>21,365</u>
Total long-term borrowings		<u>\$ 4,859,729</u>	<u>\$ 5,635,544</u> (Concluded)

To repay the vested liabilities purchased equipment and raised to financial capital, the Company has entered into a 5-year syndicated loan agreement with 7 financial institutions in November 2017. Of the total amount of NT\$7.7 billion of the syndicated loan, NT\$5.3 billion has been used as of December 31, 2017.

The Company had provided notes as refundable guarantees for syndicated loan mentioned above that will be cancelled upon termination of the guarantee.

In addition, the Company's floating borrowing rate on the above borrowing is reset every one to three months.

The loan agreement requires the maintenance of a current ratio, debt ratio, and interest coverage ration based on the Company's semi-annual and annual consolidated financial statements. For the year ended December 31, 2017, the Company had met the financial ratio covenants.

The details of assets pledged as collaterals for long-term loans are set in Note 32.

17. NOTES PAYABLE AND TRADE PAYABLES

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Notes payable	\$ 826	\$ 939
Trade payables	<u>2,785,826</u>	<u>2,590,542</u>
	<u>\$ 2,786,652</u>	<u>\$ 2,591,481</u>

The Company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed upon credit terms.

18. OTHER PAYABLES

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
<u>Other payables</u>		
Payable for bonus	\$ 245,112	\$ 241,864
Payable for maintenance and repair	181,744	187,436
Payable for patent	180,449	40,326
Payable for legal fees	85,624	8,531
Payable for insurance premium	67,119	62,030
Others	<u>569,111</u>	<u>518,096</u>
	<u>\$ 1,329,159</u>	<u>\$ 1,049,752</u>

19. PROVISIONS

	<u>December 31</u>		
	<u>2017</u>	<u>2016</u>	
<u>Current</u>			
Employee benefits (a)	\$ 46,468	\$	72,484
Customer returns and rebates (b)	<u>248,045</u>	<u>134,305</u>	
	<u>\$ 294,513</u>	<u>\$</u>	<u>206,789</u>
		Customer	
	Employee	Returns and	Total
	Benefits	Rebates	
Balance at January 1, 2017	\$ 72,484	\$ 134,305	\$ 206,789
Additional provisions recognized	46,468	365,736	412,204
Reversing un-usage balances/usage	<u>(72,484)</u>	<u>(251,996)</u>	<u>(324,480)</u>
Balance at December 31, 2017	<u>\$ 46,468</u>	<u>\$ 248,045</u>	<u>\$ 294,513</u>

- a. The provision for employee benefits represents vested long service leave entitlements accrued.
- b. The provision for customer returns and rebates was based on historical experience, management's judgment and other known reasons for estimated product returns and rebates that may occur in the year. The provision was recognized as a reduction of operating income in the year in which the related goods were sold.

20. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

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

b. Defined benefit plans

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 6 months before retirement. The Company contributes 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 amounts based on the actuary report of the Company's defined benefit plans were as follows:

	December 31	
	2017	2016
Present value of defined benefit obligation	\$ 1,842,116	\$ 1,881,728
Fair value of plan assets	<u>(665,599)</u>	<u>(757,286)</u>
Net defined benefit liability	<u>\$ 1,176,517</u>	<u>\$ 1,124,442</u>

Movements in net defined benefit liability were as follows:

	Present Value of Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Assets)
Balance at January 1, 2016	<u>\$ 1,799,856</u>	<u>\$ 790,797</u>	<u>\$ 1,009,059</u>
Defined benefit cost			
Current service cost	7,158	-	7,158
Net interest expense	34,037	-	34,037
Return on plan assets	<u>-</u>	<u>15,181</u>	<u>(15,181)</u>
Recognized in profit or loss	<u>41,195</u>	<u>15,181</u>	<u>26,014</u>

(Continued)

	Present Value of Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Assets)
Remeasurement			
Return on plan assets	\$ -	\$ (9,089)	\$ 9,089
Actuarial loss - experience adjustments	17,490	-	17,490
Actuarial loss - change in financial assumptions	<u>92,919</u>	<u>-</u>	<u>92,919</u>
Recognized in other comprehensive income	<u>110,409</u>	<u>(9,089)</u>	<u>119,498</u>
Contributions from the employer	<u>-</u>	<u>30,129</u>	<u>(30,129)</u>
Benefits paid	<u>(69,732)</u>	<u>(69,732)</u>	<u>-</u>
Balance at December 31, 2016	<u>1,881,728</u>	<u>757,286</u>	<u>1,124,442</u>
Defined benefit cost			
Current service cost	6,168	-	6,168
Net interest expense	27,942	-	27,942
Return on plan assets	<u>-</u>	<u>11,308</u>	<u>(11,308)</u>
Recognized in profit or loss	<u>34,110</u>	<u>11,308</u>	<u>22,802</u>
Remeasurement			
Return on plan assets	-	(4,189)	4,189
Actuarial loss - experience adjustments	63,292	-	63,292
Actuarial loss - change in financial assumptions	<u>-</u>	<u>-</u>	<u>-</u>
Recognized in other comprehensive income	<u>63,292</u>	<u>(4,189)</u>	<u>67,481</u>
Contributions from the employer	<u>-</u>	<u>31,304</u>	<u>(31,304)</u>
Benefits paid	<u>(137,014)</u>	<u>(130,110)</u>	<u>(6,904)</u>
Balance at December 31, 2017	<u>\$ 1,842,116</u>	<u>\$ 665,599</u>	<u>\$ 1,176,517</u> (Concluded)

An analysis by function of the amounts recognized in profit or loss in respect of the defined benefit plans is as follows:

	<u>For the Year Ended December 31</u>	
	<u>2017</u>	<u>2016</u>
Operating costs	\$ 12,406	\$ 14,158
Selling and marketing expenses	1,203	1,287
General and administration expenses	4,075	4,646
Research and development expenses	<u>5,103</u>	<u>5,923</u>
	<u>\$ 22,787</u>	<u>\$ 26,014</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/corporate 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 significant assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2017	2016
Discount rate	1.50%	1.50%
Expected rate of salary increase	3.00%	3.00%
Expected return on plan assets increase	1.50%	1.50%

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

	For the Year Ended December 31	
	2017	2016
Discount rate		
0.50% increase	<u>\$ (107,722)</u>	<u>\$ (115,193)</u>
0.50% decrease	<u>\$ 116,885</u>	<u>\$ 125,344</u>
Expected rate of salary increase		
0.50% increase	<u>\$ 114,570</u>	<u>\$ 122,856</u>
0.50% decrease	<u>\$ (106,740)</u>	<u>\$ (114,144)</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	
	2017	2016
The expected contributions to the plan for the next year	<u>\$ 32,243</u>	<u>\$ 31,033</u>
The average duration of the defined benefit obligation	12.3 years	12.9 years

The Company maintains a separate executive pension plan and the net periodic pension costs were NT\$11,396 thousand and NT\$12,355 thousand for the years ended December 31, 2017 and 2016, respectively.

Movements in net defined benefit liability were as follows:

	Present Value of Defined Benefit Obligation
Balance at January 1, 2016	\$ 411,177
Defined benefit cost	
Current service cost	6,318
Net interest expense	<u>6,037</u>
Recognized in profit or loss	<u>12,355</u>
Remeasurement	
Actuarial loss - experience adjustments	(17,726)
Actuarial loss - changes in financial assumptions	<u>1,828</u>
Recognized in other comprehensive income	<u>(15,898)</u>
Benefits paid	<u>-</u>
Balance at December 31, 2016	<u>407,634</u>
Defined benefit cost	
Current service cost	6,683
Net interest expense	<u>4,713</u>
Recognized in profit or loss	<u>11,396</u>
Remeasurement	
Actuarial loss - experience adjustments	23,706
Actuarial loss - changes in financial assumptions	<u>-</u>
Recognized in other comprehensive income	<u>23,706</u>
Benefits paid	<u>(9,455)</u>
Balance at December 31, 2017	<u>\$ 433,281</u>

An analysis by function of the amounts recognized in profit or loss in respect of the defined benefit plans is as follows:

	For the Year Ended December 31	
	2017	2016
General and administration expenses	<u>\$ 11,396</u>	<u>\$ 12,355</u>

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

	December 31	
	2017	2016
Discount rate	1.50%	1.50%
Expected rate of salary increase	-	-
Expected return on plan assets increase	1.50%	1.50%

21. EQUITY

a. Share capital

Ordinary shares

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Number of shares authorized (in thousands)	<u>6,550,000</u>	<u>6,550,000</u>
Shares authorized	<u>\$ 65,500,000</u>	<u>\$ 65,500,000</u>
Number of shares issued and fully paid (in thousands)	<u>1,804,939</u>	<u>3,615,354</u>
Share issued	<u>\$ 18,049,385</u>	<u>\$ 36,153,535</u>

Fully paid ordinary shares, which have a par value of \$10, carry one vote per share and carry a right to dividends.

The Company resolved, in the May 26, 2017 shareholder's meeting, a capital reduction for offsetting the accumulated deficit to improve the Company's financial structure. The capital reduction will amount to NT\$18,651,070 thousand, representing 1,865,107 thousand shares and approximately 51% of the Company's original share capital. The reduction was approved by the FSC on June 26, 2017 and went into effect upon approval. Per the authority granted in the shareholders' meeting, the chairman of the Company determined June 29, 2017 as the basis date of the capital reduction. After the reduction, the paid-in capital would be NT\$18,058,953 thousand, equivalent to 1,805,895 thousand shares.

A total of 864,704 thousand shares and 650,000 thousand shares of the Company's authorized shares were reserved for the issuance of convertible bonds and employee share options.

b. Capital surplus

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)</u>		
Issuance of ordinary shares	\$ -	\$ 186,269
Donations	37	37
Treasury share transactions	<u>6,422</u>	<u>6,422</u>
	<u>\$ 6,459</u>	<u>\$ 192,728</u>
<u>May be used to offset a deficit only</u>		
Changes in percentage of ownership interests in subsidiaries (2)	\$ 4,609	\$ 4,262
Treasury share transactions	<u>20,080</u>	<u>20,080</u>
	<u>\$ 24,689</u>	<u>\$ 24,342</u>
<u>May not be used for any purpose</u>		
Employee restricted shares	<u>\$ (238,236)</u>	<u>\$ 123,643</u>

- 1) 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).
 - 2) Such capital surplus arises from changes in capital surplus of subsidiaries accounted for by using the equity method.
- 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. The shareholders held their regular meeting on June 18, 2015 and, in that meeting, resolved amendments to the Company's Articles of Incorporation (the Articles), particularly the amendment to the policy on dividend distribution. In accordance with the order No. 1040247800 issued by the Ministry of Economic Affairs, amendments to the Company's Articles of Incorporation were approved by the meeting of shareholders on May 26, 2017.

The Company's Articles of Incorporation, amended on May 26, 2017, state that, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside a legal reserve 10% of the remaining profit (until the amount of the legal reserve equals the amount of the Company's paid-in capital), setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. For the policies on the distribution of employees' compensation and remuneration of directors after the amendment, refer to "Employees' compensation and remuneration of directors" in Note 23 (f).

The Company is classified under the capital intensive industry. In accordance with the long-term financial program of the Company, the above shareholders' dividends can be retained as undistributed earnings, and then be distributed in the future, as determined by the shareholders at the Annual General Meeting.

Distributions shall be prioritized to take the form of cash dividends. Nevertheless, it still depends on the Company's financial, sales or operating condition. The Company's Articles of Incorporation provide that no more than 50% of the current year's total amount of distributable earnings can be distributed in the form of share dividends.

The appropriation of earnings to a legal reserve shall be made until the legal reserve equals the Company's paid-in capital. The legal reserve may be used to offset any 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.

The appropriation of earnings for 2017 had been proposed by the Company's board of directors on March 16, 2018. The appropriation and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 541,360	
Special reserve	74,275	
Cash dividends	1,804,776	\$ 1
Stock dividends	360,955	0.2

The appropriation of earnings for 2017 is subject to the resolution of the shareholders' meeting to be held on June 14, 2018.

d. Other equity items

1) Exchange differences on translating foreign operations

	For the Year Ended December 31	
	2017	2016
Balance at January 1	\$ (8,565)	\$ 48,923
Exchange differences on translating foreign operations	<u>(76,618)</u>	<u>(57,488)</u>
Balance at December 31	<u>\$ (85,183)</u>	<u>\$ (8,565)</u>

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

	For the Year Ended December 31	
	2017	2016
Balance at January 1	\$ 956,774	\$ 871,368
Unrealized gain on available-for-sale financial assets	<u>774,460</u>	<u>85,406</u>
Balance at December 31	<u>\$ 1,731,234</u>	<u>\$ 956,774</u>

3) Employee unearned benefits

In the meetings of shareholders on June 18, 2014 and June 16, 2016, the shareholders approved a restricted share plan for employees. Refer to Note 26 for the information on restricted shares issued.

	For the Year Ended December 31	
	2017	2016
Balance at January 1	\$ (306,958)	\$ (263,407)
Granted	-	(256,420)
Share-based payment expenses recognized	213,100	213,653
Adjustments for change of turnover rate	<u>8,258</u>	<u>(784)</u>
Balance at December 31	<u>\$ (85,600)</u>	<u>\$ (306,958)</u>

e. Treasury shares

The Company's shares held by its subsidiaries at December 31, 2017 and 2016 were as follows:

Name of Subsidiary	Number of Shares Held (In Thousands)	Carrying Amount	Market Price
<u>December 31, 2017</u>			
Hui Ying	1,918	\$ 159,061	\$ 84,786
<u>December 31, 2016</u>			
Hui Ying	3,899	\$ 159,061	\$ 18,054

The Company's shares held by subsidiaries are regarded as treasury shares; shareholders' rights are retained, except for the rights to participate in any share issuances for cash and to vote.

The Company implemented a capital reduction on June 29, 2017, with 1,918 thousand treasury shares remaining after the reduction; refer to Note 21 (a).

22. REVENUE

	For the Year Ended December 31	
	2017	2016
Revenue from the sale of goods	\$ 33,483,760	\$ 23,724,053
Royalty income and others	<u>17,189</u>	<u>9,054</u>
	<u>\$ 33,500,949</u>	<u>\$ 23,733,107</u>

23. NET PROFIT (LOSS) FROM CONTINUING OPERATIONS

a. Other income

	For the Year Ended December 31	
	2017	2016
Dividend income	\$ 84,181	\$ 83,648
Interest income	15,750	13,453
Others	<u>19,266</u>	<u>30,742</u>
	<u>\$ 119,197</u>	<u>\$ 127,843</u>

b. Other gains and losses

	For the Year Ended December 31	
	2017	2016
Net foreign exchange (losses) gains	\$ (121,990)	\$ 34,738
Losses on disposal of investments	(2,517)	-
Net gain arising on financial assets designated as at FVTPL	-	31,809
Other losses	<u>(413)</u>	<u>(144)</u>
	<u>\$ (124,920)</u>	<u>\$ 66,403</u>

c. Finance costs

	For the Year Ended December 31	
	2017	2016
Interest on loans	\$ 215,690	\$ 302,381
Other interest expenses	18	3,989
Less: Amounts included in the cost of qualifying assets	<u>106</u>	<u>2,226</u>
	<u>\$ 215,602</u>	<u>\$ 304,144</u>

Information about capitalized interest was as follows:

	For the Year Ended December 31	
	2017	2016
Capitalized interest	\$ 106	\$ 2,226
Capitalization rate	0.90%	1.08%

d. Depreciation and amortization

	For the Year Ended December 31	
	2017	2016
Property, plant and equipment	\$ 1,922,176	\$ 1,924,570
Intangible assets	<u>26,932</u>	<u>57,431</u>
	<u>\$ 1,949,108</u>	<u>\$ 1,982,001</u>
 An analysis of depreciation by function		
Operating costs	\$ 1,610,990	\$ 1,543,863
Operating expenses	<u>311,186</u>	<u>380,707</u>
	<u>\$ 1,922,176</u>	<u>\$ 1,924,570</u>
 An analysis of amortization by function		
Operating costs	\$ 14,615	\$ 50,190
Selling and marketing expenses	45	30
General and administration expenses	8,840	6,496
Research and development expenses	<u>3,432</u>	<u>715</u>
	<u>\$ 26,932</u>	<u>\$ 57,431</u>

e. Employee benefits expense

	For the Year Ended December 31	
	2017	2016
Post-employment benefits (Note 20)		
Defined contribution plans	\$ 191,112	\$ 184,781
Defined benefit plans	<u>34,182</u>	<u>38,369</u>
	225,294	223,150
Share-based payments		
Equity-settled	213,100	213,505
Other employee benefits	<u>6,455,871</u>	<u>4,739,162</u>
Total employee benefits expense	<u>\$ 6,668,971</u>	<u>\$ 5,175,817</u>
 An analysis of employee benefits expense by function		
Operating costs	\$ 3,340,496	\$ 2,588,863
Operating expenses	<u>3,328,475</u>	<u>2,586,954</u>
	<u>\$ 6,668,971</u>	<u>\$ 5,175,817</u>

f. Employees' compensation and remuneration of directors

In compliance with the Company Act as amended in May 2015 and the amended Articles of Incorporation of the Company approved by the shareholders in their meeting on May 26, 2017, the Company accrued employees' compensation and remuneration of directors at the rates of 15% and no higher than 2%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors. Due to the net loss for the year ended December 31, 2016, there was no accrual for compensation of employees and remuneration of directors. For the years ended December 31, 2017 and 2016, the employees' estimated compensation and the remuneration of directors were as follows:

<u>Amount</u>	<u>For the Year Ended December 31</u>	
	<u>2017</u>	<u>2016</u>
Employees' compensation	\$ 997,202	\$ -
Remuneration of directors	\$ 132,960	\$ -

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

Information on the employees' compensation and remuneration of directors resolved by the Company's board of directors in 2018 and 2017 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

24. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Major components of income tax expense (benefit) recognized in profit or loss:

	<u>For the Year Ended December 31</u>	
	<u>2017</u>	<u>2016</u>
Current tax		
Adjustments for prior years	\$ -	\$ (144,697)
Deferred tax		
In respect of the current year	-	(87,226)
Income tax expense (benefit) recognized in profit or loss	\$ -	\$ (231,923)

A reconciliation of accounting loss and income tax expenses is as follows:

	<u>For the Year Ended December 31</u>	
	<u>2017</u>	<u>2016</u>
Income (loss) before tax from continuing operations	\$ 5,517,847	\$ (474,936)
Income (loss) tax expense calculated at the statutory rate	\$ 938,034	\$ (80,739)
Non-deductible expenses in determining taxable income	138,133	119,422
Non-taxable income	(84,181)	(83,648)
Realized loss on investment	(72,622)	-
Unrecognized temporary differences	(456,845)	(572,499)
(Recognized) unrecognized loss carryforwards	(462,519)	530,238
Adjustments for prior years' tax	-	(144,697)
Income tax benefit recognized in profit or loss	\$ -	\$ (231,923)

The applicable tax rate used above is the corporate tax rate of 17% payable by the Company in the ROC.

In January 2018, it was announced that the Income Tax Act in the ROC was amended and, starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to 5%. Deferred tax assets recognized as at December 31, 2017 are expected to be adjusted and would increase by NT\$175,206 thousand in 2018.

As the status of 2018 appropriations of earnings is uncertain, the potential income tax consequences of 2017 unappropriated earnings are not reliably determinable.

b. Current tax assets and liabilities

	<u>December 31</u>	
	2017	2016
Current tax assets		
Tax refund receivable	\$ <u>4,364</u>	\$ <u>3,283</u>
Current tax liabilities		
Income tax payable	\$ <u>-</u>	\$ <u>-</u>

c. Deferred tax assets and liabilities

The Company offset certain deferred tax assets and deferred tax liabilities which met the offset criteria.

The movements of deferred tax assets and deferred tax liabilities were as follows:

For the year ended December 31, 2017

Deferred Tax Assets	Opening Balance	Recognized in Profit or Loss	Closing Balance
Loss carryforward	\$ <u>992,838</u>	\$ <u>-</u>	\$ <u>992,838</u>

For the year ended December 31, 2016

Deferred Tax Assets	Opening Balance	Recognized in Profit or Loss	Closing Balance
Loss carryforward	\$ <u>905,612</u>	\$ <u>87,226</u>	\$ <u>992,838</u>

d. Deductible temporary differences, unused loss carryforwards and unused investment credits for which no deferred assets have been recognized in the parent company only balance sheets

	<u>December 31</u>	
	2017	2016
Loss carryforwards		
Expire in 2023	\$ 2,685,950	\$ 5,406,649
Expire in 2024	6,117,028	6,117,028
Expire in 2025	2,520,314	2,575,100
Expire in 2026	<u>3,083,989</u>	<u>3,548,494</u>
	<u>\$ 14,407,281</u>	<u>\$ 17,647,271</u>

(Continued)

	December 31	
	2017	2016
Investment credits		
Research and development expenditures	\$ 147,545	\$ -
Investment credits for stockholder	<u>-</u>	<u>28,210</u>
	<u>\$ 147,545</u>	<u>\$ 28,210</u>
Deductible temporary differences	<u>\$ 12,185,832</u>	<u>\$ 10,718,383</u> (Concluded)

The unrecognized investment credits will expire in 2018.

e. Information about unused investment credits and unused loss carry-forward

As of December 31, 2017, the investment tax credits comprised of:

Law and Statutes	Tax Credit Source	Remaining Creditable Amount	Expiry Year
Statute for Industrial Innovation	Research and development expenditures	<u>\$ 147,545</u>	2018

Loss carryforwards as of December 31, 2017 comprised of:

Unused Amount	Expiry Year
\$ 2,171,182	2022
6,354,992	2023
6,117,027	2024
2,520,315	2025
<u>3,083,989</u>	2026
<u>\$ 20,247,505</u>	

f. Integrated income tax

	December 31	
	2017	2016
Unappropriated earnings (accumulated deficit)		
Generated before January 1, 1998	\$ -	\$ -
Generated on and after January 1, 1998	<u>5,413,602</u>	<u>(18,651,070)</u>
	<u>\$ 5,413,602</u>	<u>\$ (18,651,070)</u>
Shareholder - imputed credits account	<u>\$ 490,062</u>	<u>\$ 473,568</u>

**For the Year
Ended
December 31,
2017
(Expected)**

Creditable ratio for distribution of earning

Note

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

No tax creditable ratios were calculated for accumulated deficit as of December 31, 2016.

g. Income tax assessments

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

25. EARNINGS (LOSS) PER SHARE

Unit: NT\$ Per Share

	For the Year Ended December 31	
	2017	2016
Basic earnings (loss) per share	<u>\$ 3.12</u>	<u>\$ (0.14)</u>
Diluted earnings (loss) per share	<u>\$ 3.03</u>	<u>\$ (0.14)</u>

The weighted average number of shares outstanding used for the earnings per share computation was adjusted retroactively for the capital reduction implemented to offset accumulated deficits on June 29, 2017. The basic and diluted earnings per share adjusted retrospectively for the year ended December 31, 2016, were as follows:

Unit: NT\$ Per Share

	Before Retrospective Adjustment	After Retrospective Adjustment
Basic loss per share	<u>\$ (0.07)</u>	<u>\$ (0.14)</u>
Diluted loss per share	<u>\$ (0.07)</u>	<u>\$ (0.14)</u>

The income (loss) and weighted average number of ordinary shares outstanding in the computation of earnings (loss) per share from continuing operations were as follows:

Net Income (Loss) for the Year

	For the Year Ended December 31	
	2017	2016
Income (loss) for the year attributable to owners of the Company	<u>\$ 5,517,847</u>	<u>\$ (243,013)</u>

Weighted average number of ordinary shares outstanding (in thousand shares):

	For the Year Ended December 31	
	2017	2016
Weighted average number of ordinary shares in computation of basic earnings (loss) per share	<u>1,765,736</u>	<u>1,748,483</u>
Effect of potentially dilutive ordinary shares:		
Restricted shares to employees	34,842	-
Employees' compensation or bonus issue to employees	<u>22,561</u>	<u>-</u>
Weighted average number of ordinary shares in computation of diluted earnings (loss) per share	<u>1,823,139</u>	<u>1,748,483</u>

Since the Group offered to settle compensation or bonuses paid to employees in cash or shares, the Group assumed the entire amount of the compensation or bonus will be settled in shares and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

As disclosed in Note 26 to the financial statements, in determining whether the share-based payments are potential ordinary stocks. The aforementioned stock options were antidilutive and excluded from the computation of diluted income (loss) per share for the years ended December 31, 2016.

26. SHARE-BASED PAYMENT ARRANGEMENTS

Restricted share plan for employees

Information on share plan for employees were as below:

Approved Date	Grant Shares (Thousand)	Board of Directors Approved Grant Shares (Thousand)	Grant Date	Issued Date	Issued Shares (Thousand)	Fair Value
2014/06/18	123,251	38,365	2014/08/28	2014/12/25	37,301	\$ 7.76
		62,213	2015/03/16	2015/07/22	61,279	6.82
2016/06/16	123,535	58,971	2016/10/25	2017/01/03	57,476	4.73

To meet the vesting conditions, an employee has to meet performance and other conditions over the vesting period, as follows:

- 1) Remain employed by the Company within one year after the grant date; and has a current year's performance rating of "successful" (or higher) - 40% of restricted shares will be vested;
- 2) Remain employed by the Company within two years after the grant date; and has a current year's performance rating of "successful" (or higher) - 30% of restricted shares will be vested;
- 3) Remain employed by the Company within three years after grant date; and has a current year's performance rating of "successful" (or higher) - 30% of restricted shares will be vested.

In addition to the vesting conditions, the limitations are as follows:

- 1) Employees, except for inheritance, should not sell, transfer, pledge, donate or in any other way dispose of the shares.
- 2) The shares should be held in a share trust.
- 3) Except for the above two paragraphs, the other rights of the restricted share plan for employees, which include, but are not limited to, dividends, bonuses, the distribution rights of the legal reserve and capital surplus, share options of cash capital, voting rights of shareholders, etc., are the same as the Company's issued ordinary shares.
- 4) The dividends of restricted share plan for employees are not restricted by existing conditions.

When employees do not reach the vesting conditions of restricted share plan for employees during the year, the Company will recover and cancel the shares.

Information on restricted share plan for employees was as follows:

	<u>Number of Shares (In Thousands)</u>	
	<u>For the Year Ended December 31</u>	
	<u>2017</u>	<u>2016</u>
Balance at January 1	103,593	81,407
Granted (Note 1)	-	58,971
Vested	(32,719)	(34,213)
Forfeited (Notes 2 and 3)	(3,676)	(2,572)
Cancelled by capital reduction (Note 4)	<u>(42,737)</u>	<u>-</u>
Balance at December 31	<u>24,461</u>	<u>103,593</u>

Note 1: The number of granted shares in the year is not equal to the actual issued shares.

Note 2: The forfeited shares for the year ended December 31, 2017 consisted of 163 thousand shares that are not yet cancelled, 2,018 thousand shares already cancelled, and 1,495 thousand shares representing the difference between granted and issued shares as of October 25, 2016.

Note 3: The forfeited shares for the year ended December 31, 2016 consisted of 766 thousand shares not yet cancelled and 1,806 thousand shares already cancelled.

Note 4: Based on the capital reduction ratio as of June 29, 2017, 42,737 thousand shares were cancelled.

For the years ended December 31, 2017 and 2016, the compensation costs recognized were NT\$213,100 thousand and NT\$213,505 thousand, respectively.

27. DISPOSAL OF SUBSIDIARIES

On March 22, 2017, INFOMAX filed for liquidation per the resolution reached in its shareholders' meeting; therefore, the Company has no control over INFOMAX as well as the subsidiaries of INFOMAX. For details about the disposal of INFOMAX, refer to Note 30 to the consolidated financial statements for the year ended December 31, 2017.

28. OPERATING LEASE ARRANGEMENTS

The Company as lessee

Operating leases relate to leases of land and offices with lease terms between 5 and 20 years. The Company does not have a bargain purchase options to acquire the leased land and offices at the expiration of the lease periods.

The future minimum lease payments of non-cancellable operating lease commitments were as follows:

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Not later than 1 year	\$ 75,119	\$ 77,004
1-5 years	285,351	298,570
Later than 5 years	<u>757,101</u>	<u>850,651</u>
	<u>\$ 1,117,571</u>	<u>\$ 1,226,225</u>

The lease payments recognized in profit or loss for the current year were as follows:

	<u>For the Year Ended December 31</u>	
	<u>2017</u>	<u>2016</u>
Minimum lease payments	<u>\$ 76,354</u>	<u>\$ 77,010</u>

29. CAPITAL MANAGEMENT

The Company manages its capital to ensure that the Company will be able to operate under the premises of going concerns and growth while maximizing the return to shareholders through the optimization of the debt and equity balance.

The Company's strategy for managing the capital structure is to lay out the plan of product development and expand the market share considering the growth and the magnitude of industry and further developing an integral plan founded on the required capacity, capital outlay, and magnitude of assets in long-term development. Ultimately, considering the risk factors such as the fluctuation of the industry cycle and the life cycle of products, the Company determines the optimal capital structure by estimating the profitability of products, operating profit ratio, and cash flow based on the competitiveness of products.

The management of the Company periodically examines the capital structure and contemplates on the potential costs and risks involved while exerting different financial tools. In general, the Company implements prudent strategy of risk management.

30. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments not measured at fair value

The management considers that the carrying amounts of financial assets and financial liabilities recognized in the financial statements approximate their fair values or their fair values cannot be reliably measured.

b. Fair value of financial instruments measured at fair value on a recurring basis

1) Fair value hierarchy

December 31, 2017

	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
Securities listed in ROC	<u>\$ 1,349,993</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,349,993</u>

December 31, 2016

	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
Securities listed in ROC	<u>\$ 859,250</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 859,250</u>

There were no transfers between Level 1 and Level 2 in the current and prior years.

c. Categories of financial instruments

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
<u>Financial assets</u>		
Loans and receivables (i)	\$ 13,753,435	\$ 9,532,471
Available-for-sale financial assets (ii)	1,408,493	917,750
<u>Financial liabilities</u>		
Measure at amortized cost (iii)	17,542,217	15,396,369

i) The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, notes receivable and trade receivables (including receivables from related parties), other receivables and other financial assets.

ii) The balances included the carrying amount of available-for-sale financial assets measured at cost.

iii) The balances included financial liabilities measured at amortized cost, which comprise short-term loans, notes payable and trade payables (including payables to related parties), other payables (including other payables to related parties), accrued employees' compensation and remuneration of directors, payables for purchases of equipment and long-term loans (including current portion).

d. Financial risk management objectives and policies

The Company manages its exposure to risks relating to the operations through market risk, credit risk, and liquidity risk with the objective to reduce the potentially adverse effects the market uncertainties may have on its financial performance.

The plans for material treasury activities are reviewed by management in accordance with procedures required by relevant regulations or internal controls. During the implementation of such plans, the Company must comply with certain treasury procedures that provide guiding principles for overall financial risk management.

1) Market risk

The Company's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (see (a) below), interest rates (see (b) below), and other price risk (see (c) below).

a) Foreign currency risk

The Company had foreign currency sales and purchases, which exposed the Company to foreign currency risk. Exchange rate exposures were managed within approved policy parameters utilizing foreign exchange forward contracts.

Sensitivity analysis

The Company was mainly exposed to the USD and JPY.

The sensitivity analysis of rate is for the transactions in currencies other than the entity's functional currency (i.e. foreign currencies) which are recognized at the rates of exchange prevailing at the end of each reporting period.

The following table details the Company's sensitivity to a 3% and 10% increase in the New Taiwan dollars (i.e. the functional currency) against the USD and JPY, respectively. The sensitivity rates used are 3% and 10% when reporting foreign currency risk internally to key management personnel.

	<u>USD Impact</u>		<u>JPY Impact</u>	
	<u>For the Year Ended</u>		<u>For the Year Ended</u>	
	<u>December 31</u>		<u>December 31</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Pre-tax profit decrease	<u>\$ 141,578</u>	<u>\$ 68,900</u>	<u>\$ 33,789</u>	<u>\$ 62,968</u>

b) Interest rate risk

The Company was exposed to interest rate risk because the Company borrowed funds at both fixed and floating interest rates. The risk is managed by the Company by maintaining an appropriate mix of fixed and floating rate borrowings.

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

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Fair value interest rate risk		
Financial assets	\$ 1,884,973	\$ 1,868,135
Financial liabilities	-	400,000
Cash flow interest rate risk		
Financial assets	5,687,021	3,591,835
Financial liabilities	8,068,754	9,937,785

Sensitivity analysis

The sensitivity analysis of interest is performed based on the financial liabilities exposed to cash flow interest rate risk at the end of each reporting period.

If interest rates had been 50 basis points higher/lower, the Company's pre-tax profit for the years ended December 31, 2017 and 2016 would decreased/increased by NT\$40,344 thousand and NT\$49,689 thousand, respectively.

c) Other price risk

The Company was exposed to equity price risk through its investments in listed equity securities. Equity investments are held for strategic rather than trading purposes. The Company does not actively trade these investments.

Sensitivity analysis

A sensitivity analysis of equity prices is performed based on the fair values of available-for-sale investments at the end of each reporting period.

If equity prices had been 10% higher/lower, equity for the years ended December 31, 2017 and 2016 would have increased/decreased by NT\$134,999 thousand and NT\$85,925 thousand, respectively, as a result of the changes in fair value of available-for-sale investments.

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's exposure to credit risk mainly arises from trade receivables - operating, bank deposits, and other financial instruments. Credit risk is managed separately for business related and financial related exposures.

Business related credit risk

In order to maintain the credit quality of trade receivables, the Company has established procedures to monitor and limit exposure to credit risk on trade receivables.

Credit evaluation is performed in the consideration of the relevant factors such as financial condition, external and internal credit scoring, historical experience, and economic conditions, which may affect the customer's paying ability. The Company holds some of the credit enhancements such as prepayments and collateral to mitigate its credit risks.

Trade receivables consisted of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of trade receivables and, where appropriate, credit guarantee insurance cover is purchased.

As of December 31, 2017 and 2016, the Company's ten largest customers accounted for 63% and 61% of its total trade receivables (including receivables from related parties), respectively. The Company believed that the concentration of credit risk is relatively insignificant for the remaining trade receivables.

Financial credit risk

The Company's exposure to financial credit risk which pertained to bank deposits and other financial instruments were evaluated and monitored by Corporate Treasury function. The Company only deals with creditworthy counterparties and banks so that no significant credit risk was identified.

3) Liquidity risk

The objective of liquidity risk management is to ensure the Company has sufficient liquidity to fund its business requirements of cash and cash equivalents and the unused of financing facilities associated with existing operations.

The Company relies on bank borrowings as a significant source of liquidity. As of December 31, 2017 and 2016, the Company had available unutilized overdraft and short-term bank loan facilities of approximately are NT\$3,239,475 thousand and NT\$3,097,404 thousand, respectively.

Liquidity and interest rate risk tables for non-derivative financial liabilities

The Company's remaining contractual maturity for its non-derivative financial liabilities had been drawn up based on the undiscounted cash flows (included principal and interest) of financial liabilities from the earliest date on which the Company can be required to pay. Specifically, bank loans with a repayment on demand clause were included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities were based on the agreed repayment dates.

To the extent that interest flows are floating rate, the undiscounted amount was derived from the expected borrowing interest rate at the end of the reporting period.

December 31, 2017

	On Demand or Less than 1 Year	1-3 Years	3-5 Years	5+ Years	Total
<u>Non-derivative financial liabilities</u>					
Non-interest bearing	\$ 9,503,822	\$ -	\$ -	\$ -	\$ 9,503,822
Variable interest rate liabilities	3,315,848	2,691,562	2,398,833	-	8,406,243
Fixed interest rate liabilities	-	-	-	-	-
	<u>\$ 12,819,670</u>	<u>\$ 2,691,562</u>	<u>\$ 2,398,833</u>	<u>\$ -</u>	<u>\$ 17,910,065</u>

December 31, 2016

	On Demand or Less than 1 Year	1-3 Years	3-5 Years	5+ Years	Total
<u>Non-derivative financial liabilities</u>					
Non-interest bearing	\$ 5,079,949	\$ -	\$ -	\$ -	\$ 5,079,949
Variable interest rate liabilities	4,472,702	5,679,701	15,744	-	10,168,147
Fixed interest rate liabilities	400,034	-	-	-	400,034
	<u>\$ 9,952,685</u>	<u>\$ 5,679,701</u>	<u>\$ 15,744</u>	<u>\$ -</u>	<u>\$ 15,648,130</u>

The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities was subject to change if changes in variable interest rates were to differ from those estimates of interest rates determined at the end of the reporting period.

31. TRANSACTIONS WITH RELATED PARTIES

In addition to those disclosed in other notes, detail of transactions between the Company and related parties are disclosed below.

a. Related parties and their relationships associated with the Company:

<u>Related Parties</u>	<u>Relationship with the Company</u>
Macronix America Inc. (MXA)	Subsidiary
Infomax Communication Co., Ltd (INFOMAX)	Subsidiary (Note 27)
Mxtran Inc. (Mxtran)	Subsidiary
Macronix (Hong Kong) Co., Limited (MXHK)	Indirect subsidiary
Macronix Europe NV. (MXE)	Indirect subsidiary
Macronix Pte. Ltd. (MPL)	Indirect subsidiary
Macronix (Asia) Limited (MX Asia)	Indirect subsidiary
Modiotek Co., Ltd. (Modiotek)	Associates (Note)
MegaChips Corporation (MegaChips)	Key management personnel
Ardentec Corporation (Ardentec)	The Company is its major management authority
TM Technology, Inc. (TMTECH)	Others
Macronix Education Foundation (MXIC Education)	Others

Note: In the May 26, 2017 shareholders' meeting, the decision for the liquidation of Modiotek and the election of its liquidator were resolved. The Company has hence lost its significant influence over Modiotek and Modiotek's subsidiaries.

b. Operating revenues

Line Items	Related Parties Categories/Name	<u>For the Year Ended December 31</u>	
		2017	2016
Sales	Key management personnel		
	MegaChips	\$ 8,657,954	\$ 4,846,104
	Subsidiaries		
	MXHK	5,772,861	3,870,476
	Others	1,246,750	790,257
	Others	1,058	2,691
	Associates	<u>41</u>	<u>1,040</u>
		<u>\$ 15,678,664</u>	<u>\$ 9,510,568</u>

Sale prices to foreign related parties were negotiated based on those charged to ultimate customers and were not comparable to those with external customers as foreign related parties were the primary regional distributors. Sales to domestic related parties were priced at a markup on the unit cost of the product, price that was not comparable to those with other customers.

Sales prices for the related parties were not comparable to those for external customers as the Company sells the specific purpose product. The sales terms to the related parties were between 30 to 60 days after monthly closing, similar to those with external customers.

c. Purchases

Related Parties Categories/Name	<u>For the Year Ended December 31</u>	
	2017	2016
Key management personnel		
MegaChips	<u>\$ 5,595,024</u>	<u>\$ 1,217,272</u>

Materials purchased from related parties were for manufacturing process. The payment term was 30 days post acceptance month's closing, similar to those with external vendors.

d. Receivables from related parties

Line Items	Related Parties Categories/Name	December 31	
		2017	2016
Receivables from related parties, net	Subsidiaries		
	MXHK	\$ 1,088,918	\$ 758,125
	Others	217,987	80,700
	Key management personnel		
	MegaChips	732,888	540,738
	Others	-	185
	Associates	-	21
		<u>\$ 2,039,793</u>	<u>\$ 1,379,769</u>
Other receivables	Subsidiaries		
	MXHK	\$ 167	\$ 158
	Mxtran	118	946
	INFOMAX	-	1,337
	Others	-	27
	Associates		
	Modiotek	-	302
	Others	-	97
		<u>\$ 285</u>	<u>\$ 2,867</u>

The outstanding trade receivables from related parties are unsecured. For the year ended December 31, 2017 and 2016, no impairment loss was recognized for trade receivables from related parties.

e. Payables to related parties

Line Items	Related Parties Categories/Name	December 31	
		2017	2016
Payables to related parties	Key management personnel		
	MegaChips	\$ 3,339,853	\$ 1,082,381
	The Company is its major management authority	<u>74,286</u>	<u>57,303</u>
		<u>\$ 3,414,139</u>	<u>\$ 1,139,684</u>
Other payables to related parties	Subsidiaries		
	MXA	\$ 102,035	\$ 65,356
	MXE	36,978	33,933
	MX Asia	24,694	25,548
	Others	<u>6,399</u>	<u>5,509</u>
		<u>\$ 170,106</u>	<u>\$ 130,346</u>

The outstanding trade payables from related parties are unsecured and will be settled in cash.

f. Other transactions with related parties

Line Items	Related Parties Categories/Name	For the Year Ended December 31	
		2017	2016
Manufacturing expense	The Company is its major management authority Ardentec	\$ 257,879	\$ 145,811
Operating expense	Subsidiaries		
	MXA	\$ 213,428	\$ 154,609
	MXE	133,831	128,615
	MXAsia	87,643	101,233
	Others	18,333	26,886
	Others	11,000	11,765
	Associates	1	-
	Key management personnel	-	2,430
		<u>\$ 464,236</u>	<u>\$ 425,538</u>
Software and pattern revenue	Subsidiaries		
	Mxtran	\$ 342	\$ 412
	Others	8	22
	Associates		
	Modiotek	282	646
	The Company is its major management authority		
	Ardentec	-	1,951
	Key management personnel	-	4
		<u>\$ 632</u>	<u>\$ 3,035</u>
Rental revenue	Subsidiaries		
	Mxtran	\$ 884	\$ 2,203
	INFOMAX	-	4,582
	Others	8	5
	Associates		
	Modiotek	963	4,309
		<u>\$ 1,855</u>	<u>\$ 11,099</u>

The manufacturing expense and operating expense of related parties were comparable to those with other vendors. The payment term was between 30 to 75 days after monthly closing.

The Company leases offices to its subsidiaries (rentals are classified under other gains and losses). The amount of lease payment was based on the office space leased by each related party and was collected on a monthly basis.

Under certain contracts, the Company authorized the above related parties to use the Company's pattern and software. The specifically negotiated terms were not comparable to those with external customers.

g. Compensation of key management personnel

	For the Year Ended December 31	
	2017	2016
Short-term benefits	\$ 433,980	\$ 94,722
Post-employment benefits	11,396	12,355
Share-based payments	27,257	11,660
Other long-term employee benefits	<u>116</u>	<u>194</u>
	<u>\$ 472,749</u>	<u>\$ 118,931</u>

The remuneration of key executives was determined by the remuneration committee based on the performance of individuals and market trends.

32. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for bank borrowings, the tariff of imported raw materials guarantees, natural gas agreements, land lease agreements or the deposits for hiring foreign workers:

	December 31	
	2017	2016
Property, plant and equipment, net	\$ 10,244,901	\$ 11,226,873
Trade receivables	-	729,891
Pledge deposits (classified as other financial assets - non-current)	<u>133,810</u>	<u>137,203</u>
	<u>\$ 10,378,711</u>	<u>\$ 12,093,967</u>

33. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Company as of December 31, 2017 and 2016 were as follows:

- a. As of December 31, 2017 and 2016, unused letters of credit amounted to approximately \$405,485 thousand and \$0, respectively.
- b. Unrecognized commitments are as follows:

	December 31	
	2017	2016
Acquisition of property, plant and equipment	<u>\$ 655,993</u>	<u>\$ 686,864</u>

- c. The Company entered into a phase-change memory technology development agreement with IBM in January 2010, and the agreement is renewed every three years. Under the agreement, both parties share the related expenditures of the technology development. The term of the third agreement was from January 2016 to January 2019. As of December 31, 2017, the unrecognized commitment was US\$2,400 thousand.
- d. In March 2017, the Company and its subsidiaries filed a complaint in the International Trade Commission (ITC) and the United States Federal Court against Toshiba Corporation and its subsidiaries for infringement of patents. At present, the case is still with the court. In October 2017, Toshiba Memory Corporation (TMC) filed a complaint in a Taiwan court against the Company for infringement

of patents. In November 2017, TMC filed in the Japan Patent Office a request for recognition of the Company's alleged infringement of patents. At present, the complaints are still in the early stages of legal procedures. The Company cannot make a reliable estimate of contingent liability, if any.

34. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Company's significant financial assets and liabilities denominated in foreign currencies aggregated by the foreign currencies other than functional currencies and the related exchange rates between foreign currencies and respective functional currencies were as follows:

December 31, 2017

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
JPY	\$ 14,714,045	0.2642	\$ 3,887,451
USD	232,784	29.76	<u>6,927,667</u>
			<u>\$ 10,815,118</u>
Non-monetary items			
Investments accounted for using the equity method			
USD	74,022	29.76	<u>\$ 2,202,898</u>
<u>Financial liabilities</u>			
Monetary items			
JPY	13,435,126	0.2642	\$ 3,549,560
USD	74,207	29.76	<u>2,208,387</u>
			<u>\$ 5,757,947</u>

December 31, 2016

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
JPY	\$ 6,847,403	0.2756	\$ 1,887,144
USD	107,118	32.25	<u>3,454,569</u>
			<u>\$ 5,341,713</u>
Non-monetary items			
Investments accounted for using the equity method			
USD	56,155	32.25	<u>\$ 1,810,996</u>

(Continued)

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial liabilities</u>			
Monetary items			
JPY	\$ 4,562,632	0.2756	\$ 1,257,461
USD	35,904	32.25	<u>1,157,915</u>
			<u>\$ 2,415,376</u>
			(Concluded)

For the years ended December 31, 2017 and 2016, realized and unrealized net foreign exchange gains (losses) were NT\$(121,990) thousand and NT\$34,738 thousand, respectively. It is impractical to disclose net foreign exchange losses by each significant foreign currency due to the variety of the foreign currency transactions.

35. SEPARATELY DISCLOSED ITEMS

a. Information on significant transactions and information on investees:

- 1) Financing provided to others: None
- 2) Endorsements/guarantees provided: None
- 3) Marketable securities held (excluding investment in subsidiaries, associates and joint controlled entities): Table 1 (attached)
- 4) Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital: None
- 5) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital: None
- 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital: None
- 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 2 (attached)
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 3 (attached)
- 9) Trading in derivative instruments: None
- 10) Information on investees: Table 4 (attached)

c. Information on investments in mainland China

- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, shareholding ratio, investment gain or loss, carrying amount of the investment at the end of the period, repatriation of investment gains, and limit on the amount of investment in the mainland China area: Table 5 (attached)
- 2) Any of the significant transactions with investee companies in mainland China, either directly or indirectly through a third area, and their prices, payment terms, and unrealized gains or losses:
None

TABLE 1**MACRONIX INTERNATIONAL CO., LTD.****MARKETABLE SECURITIES HELD****DECEMBER 31, 2017****(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

Holding Company Name	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statement Account	December 31, 2017				Shares as Collateral
				Shares/Units (In Thousands)	Carrying Amount	Percentage of Ownership	Fair Value (Note)	
The Company	<u>Stock</u> Ardentec Corporation	The Company serves as member of its board of directors	Available-for-sale financial assets - non-current	35,951,871	\$ 1,349,993	7.41	\$ 1,349,993	None
	United Industrial Gases Co., Ltd.	None	Financial assets measured at cost - non-current	6,671,877	58,500	3.06	58,500	None
	Aetas Technology Inc.	None	Financial assets measured at cost - non-current	145,850	-	0.29	-	None
	Zowie Technology Co., Ltd.	None	Financial assets measured at cost - non-current	20,426	-	0.14	-	None
	Quality Test System Inc.	None	Financial assets measured at cost - non-current	4,538,333	-	14.64	-	None
MXBVI	<u>Stock</u> Chipbond Technology Corporation	None	Available-for-sale financial assets - non-current	1,088,319	61,381	0.17	61,381	None
	Key ASIC Bhd	None	Available-for-sale financial assets - non-current	26,924,500	48,502	3.02	48,502	None
	Tower Semiconductor Ltd.	None	Available-for-sale financial assets - non-current	584,893	593,211	0.59	593,211	None
	Global Strategic Investment Fund (Cayman)	None	Financial assets measured at cost - non-current	490,000	-	2.52	-	None
	Global Strategic Investment Fund (Samoa)	None	Financial assets measured at cost - non-current	1,739,783	32,141	4.90	32,141	None
Hui Ying	<u>Stock</u> Macronix International Co., Ltd.	The Company	Available-for-sale financial assets - non-current	1,918,243	84,786	0.11	84,786	None
	Raio Technology Co., Ltd.	None	Financial assets measured at cost - non-current	1,089,430	-	10.23	-	None

Note: The fair value of financial assets measured at cost is recognized at its original cost less accumulated impairment loss.

MACRONIX INTERNATIONAL CO., LTD.

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2017

(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Buyer	Related Party	Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Receivable (Payable)		Note
			Purchase/Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Term	Ending Balance	% to Total	
The Company	MegaChips Corporation	Its subsidiary, Shun Yin Investment, is represented in MXIC's board of directors	Sales	\$ 8,657,954	26	30 days after monthly closing	Note 31	Note 31	\$ 732,888	12	-
	MXHK	Indirect subsidiary	Sales	5,772,861	17	45 days after monthly closing	Note 31	Note 31	1,088,918	18	-
	MXA	Subsidiary	Sales	1,246,553	4	Net 60 days	Note 31	Note 31	217,987	4	-
	MegaChips Corporation	Its subsidiary, Shun Yin Investment, is represented in MIXC's board of directors	Purchase	5,595,024	48	30 days post acceptance month's closing	Note 31	Note 31	3,339,853	54	-
MXHK	The Company	Indirect subsidiary	Purchase	US\$ 190,251	100	45 days after monthly closing	No material difference	No material difference	US\$ 36,595	100	-
MXA	The Company	Subsidiary	Purchase	US\$ 41,080	100	Net 60 days	No material difference	No material difference	US\$ 7,291	100	-

MACRONIX INTERNATIONAL CO., LTD.

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL

DECEMBER 31, 2017

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Impairment Loss
					Amount	Action Taken		
The Company	MegaChips Corporation	Its subsidiary, Shun Yin Investment, is represented in MXIC's board of directors	\$ 732,888	13.60 times	\$ -	-	JPY 2,307,851 thousand	\$ -
	MXHK	Indirect subsidiary	1,088,918	6.25 times	-	-	US\$ 20,793 thousand	-
	MXA	Subsidiary	217,987	8.35 times	-	-	US\$ 5,103 thousand	-

MACRONIX INTERNATIONAL CO., LTD.

INFORMATION ON INVESTEEES
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2017			Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				December 31, 2017	December 31, 2016	Shares	%	Carrying Amount			
The Company	MXA	San Jose, California, U.S.A.	Sales and marketing	\$ 2,640	\$ 2,640	100,000	100.00	\$ 105,331	\$ 15,585	\$ 15,585	Subsidiary
	MXBVI	Tortola, British Virgin Islands	Investment holding company	7,348,057	7,348,057	212,048,000	100.00	2,097,567	203,610	203,610	Subsidiary
	Hui Ying	Taipei, Taiwan	Investment	500,000	500,000	-	100.00	24,498	856	856	Subsidiary
	Run Hong	Taipei, Taiwan	Investment	984,432	984,432	-	100.00	13,968	(498)	(498)	Subsidiary
	INFOMAX	Hsinchu, Taiwan	Baseband chip, analog baseband chip, and power management chip	-	2,876,842	-	-	-	(1,186)	(1,153)	Note 2
	Mxtran	Hsinchu, Taiwan	Combi-SIM IC and the related service	755,287	755,287	69,627,323	90.43	8,575	(10,215)	(9,237)	Subsidiary
	Modiotek	Hsinchu, Taiwan	Wi-Fi video transmission IC and smart security systems	-	430,232	-	-	-	-	-	Note 3
MXBVI	New Trend Technology Inc.	San Jose, California, U.S.A.	IC design	874,418	866,796	26,600,000	100.00	289,240	(6,424)		Note 1 Subsidiary
	Macronix Europe NV.	Belgium	After-sale service	2,106	2,106	999	100.00	110,993	8,140		Note 1 Subsidiary
	Macronix Pte. Ltd.	Singapore	After-sale service	3,291	3,291	174,000	100.00	18,241	915		Note 1 Subsidiary
	MXHK	Hong Kong	Sales and marketing	378,427	378,427	89,700,000	100.00	680,320	192,076		Note 1 Subsidiary
	Macronix (Asia) Limited	Cayman Island	Investment holding company	26,325	26,325	700,000	100.00	58,609	3,368		Note 1 Subsidiary
Run Hong	INFOMAX	Hsinchu, Taiwan	Baseband chip, analog baseband chip, and power management chip	-	111,028	-	-	-	(1,186)		Note 1 Note 2
	Mxtran	Hsinchu, Taiwan	Combi-SIM IC and the related service	40,318	40,318	3,393,200	4.41	418	(10,215)		Note 1 Subsidiary
	Modiotek	Hsinchu, Taiwan	Wi-Fi video transmission IC and smart security systems	-	30,442	-	-	-	-		Note 1 Note 3
Hui Ying	Modiotek	Hsinchu, Taiwan	Wi-Fi video transmission IC and smart security systems	-	30,442	-	-	-	-		Note 1 Note 3
Mxtran	Mxtran Holding (Samoa) Co., Ltd. (Mxtran Samoa)	Samoa	Investment holding company	35,979	35,979	1,170,000	100.00	1,023	(7)		Note 1 Subsidiary
Mxtran Samoa	Mxtran (H.K.) Holding Co., Limited	Hong Kong	Investment holding company	23,880	23,880	6,152,000	100.00	435	(7)		Note 1 Subsidiary

Note 1: Under relevant regulations, no disclosure of investment gain (loss) is needed.

Note 2: On March 22, 2017, INFOMAX filed for liquidation per the resolution reached in its shareholders' meeting; hence, the Company has no control over INFOMAX as well as the subsidiaries of INFOMAX.

Note 3: In the May 26, 2017 shareholders' meeting, the decision for the liquidation of Modiotek and the election of its liquidator were resolved. The Company has hence lost its significant influence over Modiotek and Modiotek's subsidiaries.

MACRONIX INTERNATIONAL CO., LTD.

INFORMATION ON INVESTMENT IN MAINLAND CHINA
FOR THE YEARS ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company	Main Businesses and Products	Paid-in Capital	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2017	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2017	Net Income (Loss) of the Investee	% Ownership for Direct or Indirect Investment	Investment Gain (Loss) (Note 2)	Carrying Amount as of December 31, 2017	Accumulated Repatriation of Investment Income as of December 31, 2017
					Outward	Inward						
MXm	Development of integrated circuit system and software	\$ 296,160	MXHK (Note 1)	\$ 296,160	\$ -	\$ -	\$ 296,160	\$ 18,658	100	\$ 18,658	\$ 366,050	\$ -
Maxtran Beijing (Note 3)	Technical support of Combi-SIM IC	23,435	Mxtran HK (Note 1)	23,435	-	-	23,435	(3)	-	(2)	-	-

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2017	Investment Amount Authorized by Investment Commission, MOEA	Upper Limit on the Amounts of Investment Stipulated by Investment Commission, MOEA
\$ 296,160	\$ 296,160	(Note 4)

Note 1: The Company invested in a company located in mainland China indirectly through the existing company in a third country.

Note 2: The amount was recognized based on the unreviewed financial statements of the investee company.

Note 3: The liquidation of Maxtran Beijing was completed in January 2017. The cancellation of the registration of Maxtran Beijing was filed with the Investment Commission, MOEA for recordation and approved in July 2017.

Note 4: As the Company has obtained the certificate of being qualified for operating headquarters issued by the Industrial Development Bureau, MOEA in March 2017, the upper limit on investments in mainland China pursuant to "Principle of investment or Technical Cooperation in Mainland China" is not applicable.