Vanguard International Semiconductor Corporation and Subsidiaries

Consolidated Financial Statements for the Three Months Ended March 31, 2017 and 2016 and Independent Auditors' Review Report

INDEPENDENT AUDITORS' REVIEW REPORT

The Board of Directors and Stockholders
Vanguard International Semiconductor Corporation

We have reviewed the accompanying consolidated balance sheets of Vanguard International Semiconductor Corporation (the "Corporation") and its subsidiaries (collectively referred to as the "Group") as of March 31, 2017 and 2016 and the related consolidated statements of comprehensive income, changes in equity and cash flows for the three months ended March 31, 2017 and 2016. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to issue a report on these financial statements based on our reviews.

We conducted our reviews in accordance with Statement of Auditing Standards No. 36 "Review Financial Statements" issued by the Auditing Standards Committee of the Accounting Research and Development Foundation of the Republic of China. A review consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

May 5, 2017

<u>*Notice to Readers*</u>

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

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

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In Thousands of New Taiwan Dollars)

ASSETS	March 31, 2017 Reviewed Amount	%	December 31, 2016 Audited Amount	%	March 31, 2016 Reviewed Amount	%
CURRENT ASSETS						
Cash and cash equivalents (Note 6)	$ 18,602,854	52	$ 17,564,903	50	$ 18,805,909	55
Financial assets at fair value through profit or loss - current (Notes 7 and 30)	1,075,820	3	1,428,086	4	1,424,518	4
Available-for-sale financial assets - current (Notes 8 and 30)	60,784	-	64,386	-	-	-
Held-to-maturity financial assets - current (Notes 9 and 30)	197,590	1	-	-	49,621	-
Derivative financial assets for hedging - current (Notes 10 and 30)	3,550	-	-	-	17,105	-
Notes and accounts receivable, net (Note 12)	3,084,458	9	3,348,347	10	3,158,862	9
Receivables from related parties (Note 31)	633,419	2	613,214	2	543,148	2
Other receivables	164,988	-	152,654	-	119,561	-
Other receivables from related parties (Note 31)	-	-	824	-	3,329	-
Inventories (Note 13)	2,119,353	6	2,199,775	6	2,329,910	7
Prepaid expenses	175,714	-	191,347	1	182,094	1
Other current assets (Notes 18 and 30)	93,963	-	99,385	-	163,371	1
Total current assets	26,212,493	73	25,662,921	73	26,797,428	79
NON-CURRENT ASSETS						
Available-for-sale financial assets - non-current (Notes 8 and 30)	503,033	1	503,681	2	82,403	-
Held-to-maturity financial assets - non-current (Notes 9 and 30)	2,050,813	6	1,888,367	5	-	-
Financial assets carried at cost - non-current (Note 11)	85,327	-	85,327	-	62,717	-
Investment accounted for using equity method (Note 15)	191,641	1	208,993	1	213,927	1
Property, plant and equipment (Note 16)	6,376,270	18	6,284,081	18	6,577,896	19
Intangible assets (Note 17)	26,103	-	30,282	-	36,577	-
Deferred income tax assets	19,779	-	8,050	-	5,485	-
Refundable deposits	4,620	-	4,636	-	4,443	-
Other non-current assets (Notes 18 and 32)	303,736	1	303,704	1	303,596	1
Total non-current assets	9,561,322	27	9,317,121	27	7,287,044	21
TOTAL ASSETS	$ 35,773,815	100	$ 34,980,042	100	$ 34,084,472	100

LIABILITIES AND EQUITY	March 31, 2017 Reviewed Amount	%	December 31, 2016 Audited Amount	%	March 31, 2016 Reviewed Amount	%
CURRENT LIABILITIES						
Financial liabilities at fair value through profit or loss - current (Notes 7 and 30)	$ 823	-	$ 43,029	-	$ -	-
Derivative financial liabilities for hedging - current (Notes 10 and 30)	830	-	-	-	6,180	-
Notes and accounts payable	1,168,684	3	1,130,381	3	1,066,143	3
Accrued profit sharing to employees and remuneration to directors (Note 25)	1,000,677	3	845,903	3	839,137	3
Payables to contractors and equipment suppliers	279,043	1	264,273	1	149,551	-
Other payables (Note 19)	1,791,966	5	2,151,482	6	1,415,593	4
Other payables to related parties (Note 31)	83,956	-	85,670	-	97,055	-
Current income tax liabilities (Note 4)	692,435	2	604,714	2	667,501	2
Provisions - current (Note 21)	208,201	1	236,336	1	192,326	1
Other current liabilities (Note 20)	96,817	-	114,884	-	102,643	-
Total current liabilities	5,323,432	15	5,476,672	16	4,536,129	13
NON-CURRENT LIABILITIES						
Deferred income tax liabilities	85,460	-	82,723	-	74,448	-
Net defined benefit liabilities - non-current (Note 4)	709,424	2	708,353	2	632,253	2
Other non-current liabilities (Note 31)	13,189	-	13,031	-	14,268	-
Total non-current liabilities	808,073	2	804,107	2	720,969	2
Total liabilities	6,131,505	17	6,280,779	18	5,257,098	15
EQUITY (Note 23)						
Capital stock						
Common stock	16,389,823	46	16,389,823	47	16,389,823	48
Capital surplus	862,300	3	862,594	2	854,914	3
Retained earnings						
Legal reserve	3,506,771	10	3,506,771	10	3,091,013	9
Special reserve	115,811	-	115,811	-	70,506	-
Unappropriated earnings	9,012,669	25	7,862,220	23	8,472,146	25
Total retained earnings	12,635,251	35	11,484,802	33	11,633,665	34
Other equity	(245,064)	(1)	(37,956)	-	(51,028)	-
Total equity	29,642,310	83	28,699,263	82	28,827,374	85
TOTAL LIABILITIES AND EQUITY	$ 35,773,815	100	$ 34,980,042	100	$ 34,084,472	100

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

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

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

	Three Months Ended March 31			
	2017		2016	
	Amount	%	Amount	%
NET REVENUE (Notes 24 and 31)	$ 6,263,431	100	$ 6,214,552	100
COST OF REVENUE (Notes 13, 25 and 31)	4,252,473	68	4,024,190	65
GROSS PROFIT	2,010,958	32	2,190,362	35
OPERATING EXPENSES (Notes 25 and 31)				
Marketing	63,464	1	59,849	1
General and administrative	221,995	4	224,182	3
Research and development	403,428	6	316,089	5
Total operating expenses	688,887	11	600,120	9
OPERATING INCOME	1,322,071	21	1,590,242	26
NONOPERATING INCOME AND EXPENSES				
Interest income	51,256	1	44,295	1
Other income (Note 31)	14,349	-	16,887	-
Gain on disposal of property, plant and equipment	-	-	15	-
Gain on financial assets and liabilities at fair value through profit or loss	130,662	2	197,919	3
Loss on disposal of investment (Note 15)	-	-	(15,903)	-
Net foreign exchange loss	(280,578)	(5)	(223,225)	(4)
Impairment loss on financial assets (Note 8)	-	-	(82,200)	(1)
Share of (loss) gain of associates and joint ventures	(8,831)	-	3,769	-
Total nonoperating income and expenses	(93,142)	(2)	(58,443)	(1)
INCOME BEFORE INCOME TAX	1,228,929	19	1,531,799	25
INCOME TAX EXPENSE (Notes 4 and 26)	(78,480)	(1)	(178,628)	(3)
NET INCOME	1,150,449	18	1,353,171	22
OTHER COMPREHENSIVE INCOME (Note 23)				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of foreign operations	(207,189)	(3)	(11,554)	-

(Continued)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

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

	Three Months Ended March 31			
	2017		2016	
	Amount	%	Amount	%
Unrealized gain on available-for-sale financial assets	$ 84	-	$ 75,872	1
Share of other comprehensive (loss) income of associates and joint ventures	(3)	-	465	-
Total other comprehensive (loss) income	(207,108)	(3)	64,783	1
TOTAL COMPREHENSIVE INCOME	$ 943,341	15	$ 1,417,954	23
NET INCOME ATTRIBUTABLE TO				
Owner of the Corporation	$ 1,150,449	18	$ 1,353,171	22
Non-controlling interests	-	-	-	-
	$ 1,150,449	18	$ 1,353,171	22
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO				
Owner of the Corporation	$ 943,341	15	$ 1,417,954	23
Non-controlling interests	-	-	-	-
	$ 943,341	15	$ 1,417,954	23
EARNINGS PER SHARE (Note 27)				
Basic	$ 0.70		$ 0.83	
Diluted	$ 0.70		$ 0.82	

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

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

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

			Retained Earnings			Other Equity		
	Capital Stock	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translation of Foreign Operations	Unrealized (Loss) Gain on Available-for-sale Financial Assets	Total Equity
BALANCE, JANUARY 1, 2016	$ 16,389,823	$ 855,123	$ 3,091,013	$ 70,506	$ 7,118,975	$ (41,010)	$ (74,801)	$ 27,409,629
Net income for the three months ended March 31, 2016	-	-	-	-	1,353,171	-	-	1,353,171
Other comprehensive income for the three months ended March 31, 2016	-	-	-	-	-	(11,089)	75,872	64,783
Total comprehensive income for the three months ended March 31, 2016	-	-	-	-	1,353,171	(11,089)	75,872	1,417,954
Disposal of investment accounted for using equity method	-	(209)	-	-	-	-	-	(209)
BALANCE, MARCH 31, 2016	$ 16,389,823	$ 854,914	$ 3,091,013	$ 70,506	$ 8,472,146	$ (52,099)	$ 1,071	$ 28,827,374
BALANCE, JANUARY 1, 2017	16,389,823	$ 862,594	$ 3,506,771	$ 115,811	$ 7,862,220	$ (38,066)	$ 110	$ 28,699,263
Changes in capital surplus from investment in associates and joint ventures accounted for using equity method	-	(294)	-	-	-	-	-	(294)
Net income for the three months ended March 31, 2017	-	-	-	-	1,150,449	-	-	1,150,449
Other comprehensive income for the three months ended March 31, 2017	-	-	-	-	-	(207,192)	84	(207,108)
Total comprehensive income for the three months ended March 31, 2017	-	-	-	-	1,150,449	(207,192)	84	943,341
BALANCE, MARCH 31, 2017	$ 16,389,823	$ 862,300	$ 3,506,771	$ 115,811	$ 9,012,669	$ (245,258)	$ 194	$ 29,642,310

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

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	Three Months Ended March 31	
	2017	**2016**
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 1,228,929	$ 1,531,799
Adjustments for:		
Depreciation	492,068	548,614
Amortization	5,163	5,019
Provision of allowance for doubtful accounts	1,300	-
Net loss on financial assets and liabilities at fair value through profit or loss	48,682	3,855
Interest income	(51,256)	(44,295)
Share of loss (gain) of associates and joint ventures	8,831	(3,769)
Gain on disposal of property, plant and equipment	-	(15)
Loss on disposal of investment	-	15,903
Impairment loss on financial assets	-	82,200
Net loss on foreign currency exchange	9,648	2,794
Changes in operating assets and liabilities:		
Financial assets held for trading	(97,834)	(186,453)
Derivative financial assets for hedging	(3,550)	(17,105)
Notes and accounts receivable	262,589	(639,349)
Receivable from related parties	(20,205)	(9,213)
Other receivables	(9,087)	5,077
Other receivables from related parties	824	11,755
Inventories	80,422	(79,299)
Prepaid expenses	15,631	(18,581)
Other current assets	(65)	225
Financial liabilities held for trading	(42,206)	(28,474)
Derivative financial liabilities for hedging	830	(840)
Notes and accounts payable	38,303	188,017
Other payables	(359,516)	(311,504)
Other payables to related parties	(1,714)	29,301
Provisions	(28,135)	55,750
Other current liabilities	(18,067)	21,198
Net defined benefit liabilities	1,071	1,261
Accrued profit sharing to employees and remuneration to directors	154,774	201,911
Cash generated from operations	1,717,430	1,365,782
Interest received	50,468	46,529
Income tax paid	(220)	(1,443)
Net cash provided by operating activities	1,767,678	1,410,868

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VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	Three Months Ended March 31	
	2017	**2016**
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of financial assets designated as fair value through profit or loss	$ (1,309,260)	$ (480,080)
Proceeds from disposal of financial assets designated as fair value through profit or loss	1,710,679	336,055
Acquisitions of held-to-maturity financial assets	(479,750)	-
Proceeds from redemption of held-to-maturity financial assets	-	91,512
Proceeds from disposal of financial assets measured at cost	-	13,262
Acquisitions of investment accounted for using equity method	-	(166,175)
Proceeds from disposal of investment accounted for using equity method	-	19,633
Acquisitions of property, plant and equipment	(565,715)	(199,321)
Proceeds from disposal of property, plant and equipment	-	15
Decrease in refundable deposits	16	4
Acquisition of intangible assets	(1,284)	-
Increase in other financial assets	(32)	(164,519)
Net cash used in investing activities	(645,346)	(549,614)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in other non-current liabilities	158	143
Net cash provided by financing activities	158	143
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(84,539)	(6,335)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,037,951	855,062
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	17,564,903	17,950,847
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 18,602,854	$ 18,805,909

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

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)
(Reviewed, Not Audited)

1. ORGANIZATION

Vanguard International Semiconductor Corporation (the "Corporation") was incorporated in Hsinchu Science-based Industrial Park in December 1994 and commenced business in January 1995. The Corporation engages mainly in the manufacturing, selling, packaging, testing and computer-aided design of integrated circuits and other semiconductor devices and the manufacturing of masks.

The Corporation's shares have been traded over the counter on the Republic of China (ROC) GreTai Securities Market since March 25, 1998.

The functional currency of the Corporation is New Taiwan dollars. The consolidated financial statements are presented in New Taiwan dollars.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were reported to the Corporation's board of directors and issued on May 5, 2017.

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) endorsed and issued into effect by the Financial Supervisory Commission (FSC).

   The Corporation and entities controlled by the Corporation (collectively, the "Group") starts to apply the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS, IAS, IFRIC and SIC (collectively, the "IFRSs") issued by the IASB and 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 Group's accounting policies:

   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 Group 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 Group has significant transaction. If the transaction or balance with a specific related party is 10% or more of the Group'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. New IFRSs in issue but not yet endorsed and issued into effect by the FSC

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

The FSC announced that amendments to IFRS 4 (only the overlay approach can be applied), IFRS 9 and IFRS 15 will take effect starting January 1, 2018. As of the date the consolidated financial statements were authorized for issue, the FSC has not announced the effective dates of other new IFRSs.

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
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendments to IFRS 15 "Clarifications to IFRS15 Revenue from Contracts with Customers"	January 1, 2018
IFRS 16 "Leases"	January 1, 2019
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of investment property"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

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

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

1) IFRS 9 “Financial Instruments”

Recognition and measurement of financial assets

With regards 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 Group’s debt instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, their classification and measurement are as follows:

a) For debt instruments, if they are held within a business model whose objective is to collect the contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with impairment loss recognized in profit or loss, if any. Interest revenue is recognized in profit or loss by using the effective interest method;

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

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

Impairment of financial assets

IFRS 9 requires that impairment loss on financial assets is recognized by using the “Expected Credit Losses Model”. The credit loss allowance is required for financial assets measured at amortized cost, financial assets mandatorily 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 Group 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.

Hedge accounting

The main change in hedge accounting amended application requirements for hedge accounting to better reflect the entity's risk management activities. Compared with IAS 39, the main changes include: (1) enhancing types of transactions eligible for hedge accounting, specifically broadening the risk eligible for hedge accounting of non-financial items; (2) changing the way hedging derivative instruments are accounted for to reduce profit or loss volatility; and (3) replacing retrospective effectiveness assessment with the principle of economic relationship between the hedging instrument and the hedged item.

Transition

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

2) Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"

The amendments stipulated that, when an entity sells or contributes assets that constitute a business (as defined in IFRS 3) to an associate or joint venture, the gain or loss resulting from the transaction is recognized in full. Also, when an entity loses control of a subsidiary that contains a business but retains significant influence or joint control, the gain or loss resulting from the transaction is recognized in full.

Conversely, when an entity sells or contributes assets that do not constitute a business to an associate or joint venture, the gain or loss resulting from the transaction is recognized only to the extent of the unrelated investors' interest in the associate or joint venture, i.e. the entity's share of the gain or loss is eliminated. Also, when an entity loses control of a subsidiary that does not contain a business but retains significant influence or joint control in an associate or a joint venture, the gain or loss resulting from the transaction is recognized only to the extent of the unrelated investors' interest in the associate or joint venture, i.e. the entity's share of the gain or loss is eliminated.

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 supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations.

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

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

In identifying performance obligations, IFRS 15 and related amendment require that a good or service is distinct if it is capable of being distinct (for example, the Group regularly sells it separately) and the promise to transfer it is distinct within the context of the contract (i.e. the nature of the promise in the contract is to transfer each of those goods or services individually rather than to transfer combined items).

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

4) 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 Group 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 Group may elect to apply the accounting method similar to the accounting for operating lease under IAS 17 to the low-value and short-term leases. On the consolidated statements of comprehensive income, the Group should present the depreciation expense charged on the right-of-use asset separately from interest expense accrued on the lease liability; interest is computed by using effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of the lease liability are classified within financing activities; cash payments for interest portion are classified within operating activities.

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

When IFRS 16 becomes effective, the Group 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.

5) Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”

The amendment clarifies that the difference between the carrying amount of the debt instrument measured at fair value and its tax base gives rise to a temporary difference, even though there are unrealized losses on that asset, irrespective of whether the Group expects to recover the carrying amount of the debt instrument by sale or by holding it and collecting contractual cash flows.

In addition, in determining whether to recognize a deferred tax asset, the Group should assess a deductible temporary difference in combination with all of its other deductible temporary differences, unless the tax law restricts the utilization of losses to deduction against income of a specific type, in which case, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type. The amendment also stipulates that, when determining whether to recognize a deferred tax asset, the estimate of probable future taxable profit may include some of the Group’s assets for more than their carrying amount if there is sufficient evidence that it is probable that the Group will achieve the higher amount, and that the estimate for future taxable profit should exclude tax deductions resulting from the reversal of deductible temporary differences.

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

a. Statement of compliance

These interim consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IAS 34 "Interim Financial Reporting" as endorsed and issued into effect by the FSC. Disclosure information included in these interim consolidated financial statements is less than the disclosure information required in a complete set of annual financial statements.

b. Basis of consolidation

See Note 14 and Table 6 for the detailed information of subsidiaries.

c. Other significant accounting policies

Except for the following, the accounting policies applied in these consolidated financial statements were consistent with those applied in the preparation of the Group's consolidated financial statements for the year ended December 31, 2016.

1) Retirement benefits

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

2) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Interim period income taxes are assessed on an annual basis and calculated by applying to an interim period's pre-tax income the tax rate that would be applicable to expected total annual earnings.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Refer to the critical accounting judgments and key sources of estimation uncertainty of the consolidated financial statements for the year ended December 31, 2016.

6. CASH AND CASH EQUIVALENTS

	March 31, 2017	December 31, 2016	March 31, 2016
Deposits in bank	$ 17,557,269	$ 16,023,446	$ 17,113,375
Cash equivalents			
Bonds acquired under resale agreements	1,045,585	1,541,457	1,692,534
	$ 18,602,854	$ 17,564,903	$ 18,805,909

The market rate intervals of cash and cash equivalents at the end of the reporting period were as follows:

	March 31, 2017	December 31, 2016	March 31, 2016
Bank deposits	0%-1.80%	0%-1.80%	0%-3.00%
Bonds acquired under resale agreements	1.30%-1.35%	0.42%-1.50%	0.33%-3.20%

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	March 31, 2017	December 31, 2016	March 31, 2016
Financial assets designated as at FVTPL			
Credit linked notes (a)	$ 457,905	$ 715,491	$ 1,233,234
Interest rate linked notes (a)	425,520	612,427	-
Exchange linked notes (a)	91,005	96,613	-
	974,430	1,424,531	1,233,234
Financial assets held for trading			
Derivative financial assets (not designated as hedging instruments)			
Forward exchange contracts (b)	100,739	1,098	175,659
Currency-swap contracts (c)	651	2,457	15,625
	101,390	3,555	191,284
Financial assets at FVTPL - current	$ 1,075,820	$ 1,428,086	$ 1,424,518
Financial liabilities held for trading			
Derivative financial liabilities (not designated as hedging instruments)			
Forward exchange contracts (b)	$ 200	$ 42,073	$ -
Currency-swap contracts (c)	623	956	-
Financial liabilities at FVTPL - current	$ 823	$ 43,029	$ -

a. The Group entered into structured investment contracts with banks in 2017 and 2016. The structured investment contracts include embedded derivative instruments which were not closely related to the host contracts. The Group designated the entire contract as financial asset at FVTPL on initial recognition.

b. At the end of the reporting period, outstanding forward exchange contracts that did not meet the criteria of hedge accounting were as follows:

	Currency	Maturity Date	Contract Amount (In Thousands)
March 31, 2017			
Sell forward exchange contracts	US$ to NT$	2017.04.05-2017.05.18	US$ 71,000
December 31, 2016			
Sell forward exchange contracts	US$ to NT$	2017.01.03-2017.05.11	US$ 158,000
March 31, 2016			
Sell forward exchange contracts	US$ to NT$	2016.04.06-2016.08.04	US$ 161,000
Sell forward exchange contracts	US$ to JPY	2016.04.14	US$ 1,600

c. At the end of the reporting period, outstanding currency-swap contracts that did not meet the criteria of hedge accounting were as follows:

	Currency	Maturity Date	Contract Amount (In Thousands)
March 31, 2017			
Sell forward exchange contracts	US$ to NT$	2017.04.07-2017.04.24	US$ 9,500
Buy forward exchange contracts	US$ to NT$	2017.04.07-2017.04.12	US$ 4,250
Sell forward exchange contracts	EUR to US$	2017.04.06	EUR 400
December 31, 2016			
Sell forward exchange contracts	US$ to NT$	2017.01.03-2017.01.24	US$ 11,000
Buy forward exchange contracts	US$ to NT$	2017.03.27	US$ 10,000
March 31, 2016			
Sell forward exchange contracts	US$ to NT$	2016.04.07-2016.04.22	US$ 32,800

The Group entered into foreign exchange forward contracts and currency-swap contracts during the three months ended March 31, 2017 and 2016 to manage exposures due to exchange rate fluctuations of foreign currency denominated assets and liabilities.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	March 31, 2017	December 31, 2016	March 31, 2016
Current			
Foreign corporate bonds	$ 60,784	$ 64,386	$ -
Non-current			
Listed stocks	$ 43,817	$ 43,648	$ 82,403
Domestic bonds	459,216	460,033	-
	$ 503,033	$ 503,681	$ 82,403

The Group recognized impairment loss of $82,200 thousand for the three months ended March 31, 2016.

9. HELD-TO-MATURITY FINANCIAL ASSETS

	March 31, 2017	December 31, 2016	March 31, 2016
Current			
Foreign investments			
Volkswagen Int'l Finance N.V. bonds	$ -	$ -	$ 49,621
RHB Bank bonds	91,267	-	-
Shinhan Bank bonds	30,373	-	-
Sinopec Group Corp. bonds	45,560	-	-
Bank of East Asia bonds	30,390	-	-
	$ 197,590	$ -	$ 49,621
Non-current			
Foreign investments			
SUMIBK bonds	$ 214,231	$ 227,370	$ -
QNB Finance Ltd. bonds	243,832	258,714	-
Standard Chartered PLC bonds	263,954	280,144	-
Bank of China Limited, Luxembourg Branch bonds	142,817	151,427	-
Industrial and Commercial Bank of China Limited, Sydney Branch bonds	63,901	67,769	-
China Construction Bank (Asia) Co., Ltd. bonds	151,859	149,993	-
TSMC Global Ltd. bonds	242,778	257,351	-
Mizuho Bank Ltd. bonds	243,848	258,683	-
Bank of China (Hong Kong) Limited bonds	162,351	173,056	-
Horsepower Finance Ltd. bonds	60,275	63,860	-
Inventive Global Investments Ltd. bonds	260,967	-	-
	$ 2,050,813	$ 1,888,367	$ -

10. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

	March 31, 2017		December 31, 2016		March 31, 2016	
	Fair Value Hedge	Cash Flow Hedge	Fair Value Hedge	Cash Flow Hedge	Fair Value Hedge	Cash Flow Hedge
Derivative financial assets for hedging - current						
Forward exchange contracts	$ -	$ -	$ -	$ -	$ 10,550	$ -
Currency-swap contracts	3,550	-	-	-	6,555	-
	$ 3,550	$ -	$ -	$ -	$ 17,105	$ -
Derivative financial liabilities for hedging - current						
Forward exchange contracts	$ -	$ -	$ -	$ -	$ 3,750	$ -
Currency-swap contracts	830	-	-	-	2,430	-
	$ 830	$ -	$ -	$ -	$ 6,180	$ -

a. Fair value hedge

The Group used forward exchange contracts and currency-swap contracts to hedge risks on exchange rate fluctuations of foreign-currency denominated accounts receivable. The forward exchange contracts and currency-swap contracts had the same term as the respective financial assets; the management believed the forward exchange contracts and currency-swap contracts were highly effective hedge instruments.

The outstanding currency-swap contracts at the end of the reporting period were as follows:

	Currency	Maturity Date	Contract Amount (In Thousands)
March 31, 2017			
Sell forward exchange contracts	US$ to NT$	2017.04.28-2017.05.19	US$ 10,000
March 31, 2016			
Sell forward exchange contracts	US$ to NT$	2016.04.19	US$ 5,000

The outstanding forward exchange contracts at the end of the reporting period was as follows:

	Currency	Maturity Date	Contract Amount (In Thousands)
March 31, 2016			
Sell forward exchange contracts	US$ to NT$	2016.05.18	US$ 10,000

11. FINANCIAL ASSETS CARRIED AT COST - NON-CURRENT

	March 31, 2017	December 31, 2016	March 31, 2016
Unlisted stocks	$ 85,327	$ 85,327	$ 62,717
Classification of financial assets			
Available-for-sale financial assets	$ 85,327	$ 85,327	$ 62,717

The management believed that the fair value of the aforementioned unlisted equity investments held by the Group cannot be reliably measured due to the range of reasonable fair value estimates was significant and the probabilities of the various estimates cannot be reasonably assessed. Therefore, the unlisted stocks were measured at cost less impairment at the end of the reporting period.

12. NOTES AND ACCOUNTS RECEIVABLE, NET

	March 31, 2017	December 31, 2016	March 31, 2016
Notes and accounts receivable	$ 3,087,745	$ 3,350,334	$ 3,160,849
Allowance for doubtful accounts	(3,287)	(1,987)	(1,987)
Notes and accounts receivable, net	$ 3,084,458	$ 3,348,347	$ 3,158,862

The average credit period on sales of goods was 30 to 45 days after month closing. No interest was charged on notes and accounts receivables. In determining the recoverability of a trade receivable, the Group considered any changes in the credit quality of the trade receivable since the date credit was initially granted to the end of the reporting period. Allowance for doubtful accounts was based on estimated irrecoverable amounts determined by reference to past default experience of the counterparts and an analysis of their current financial position.

For the accounts receivable balance that were past due at the end of the reporting period, the Group had not recognized an allowance for doubtful accounts since there had not been a significant change in the credit quality of its customers and the amounts were still considered recoverable.

The aging analyses of notes and accounts receivable were as follows:

	Past Due Days	March 31, 2017	December 31, 2016	March 31, 2016
Not past due and not impaired	0 days	$ 3,008,003	$ 3,290,278	$ 3,067,941
Past due but not impaired	Less than 60 days	79,639	24,548	91,946
	61-90 days	88	35,479	60
	More than 90 days	15	29	902
		79,742	60,056	92,908
		$ 3,087,745	$ 3,350,334	$ 3,160,849

The above aging analyses were based on the past due dates.

Movements of the allowance for doubtful accounts were as follows:

	Three Months Ended March 31	
	2017	2016
Balance, beginning of period	$ 1,987	$ 1,987
Add: Provision	1,300	-
Balance, end of period	$ 3,287	$ 1,987

13. INVENTORIES

	March 31, 2017	December 31, 2016	March 31, 2016
Finished goods	$ 84,823	$ 202,723	$ 159,078
Work in process	1,332,892	1,212,579	1,452,177
Raw materials	357,654	431,448	345,564
Supplies and spare parts	343,984	353,025	373,091
	$ 2,119,353	$ 2,199,775	$ 2,329,910

The write-downs of inventories included in the cost of revenue were as below:

	Three Months Ended March 31	
	2017	2016
Provision of inventory valuation and obsolescence loss	$ 27,997	$ 28,586

For the three months ended March 31, 2017 and 2016, cost of revenue included unallocated manufacturing overheads amounted to $35,781 thousand and $30,170 thousand, respectively.

14. SUBSIDIARIES

Subsidiaries included in the consolidated financial statements

			Proportion of Ownership		
Investor	Investee	Nature of Activities	March 31, 2017	December 31, 2016	March 31, 2016
Vanguard International Semiconductor Corporation	VIS Associates Inc.	Investments	100%	100%	100%
VIS Associates Inc.	Specialty TechFarm, Inc.	Investments	-	-	100%
VIS Associates Inc.	VIS Investment Holding, Inc.	Investments	100%	100%	100%
VIS Investment Holding, Inc.	VIS Micro, Inc.	Marketing service	100%	100%	100%

Specialty TechFarm, Inc. completed liquidation in April 2016.

15. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

Investments in associates

	March 31, 2017	December 31, 2016	March 31, 2016
Associates individually immaterial			
CMSC, Inc.	$ 57,717	$ 61,440	$ 54,333
Quora Technology, Inc.	133,924	147,553	159,594
	$ 191,641	$ 208,993	$ 213,927

Refer to Table 6 "Information on Investees" for the nature of business, principal place of business and country of incorporation of the associates.

The Group sold all of its interest in SkyTraq Technology Inc. in February 2016. This transaction resulted in the recognition of a loss of $9,326 thousand.

In March 2016, the Group subscribed 5,000 thousand shares of preferred stocks of Quora Technology, Inc. in cash amounting to $166,175 thousand. The Group's percentage of ownership in Quora Technology Inc. was 31.04% and exercised significant influence over Quora Technology, Inc. As of March 31, 2017, the Group's percentage of ownership in Quora Technology Inc. was 32.76%.

The investments in associates accounted for using the equity method, the share of net profit or loss and the share of other comprehensive income (loss) from investments were calculated based on the unreviewed financial statements. The Group's management considered the use of unreviewed financial statements of the investees did not have material impact on its consolidated financial statements.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery and Equipment	Other Equipment	Advance Payments and Construction in Progress	Total
Cost					
Balance, January 1, 2016	$ 15,006,190	$ 56,335,943	$ 393,907	$ 209,717	$ 71,945,757
Additions	29,610	70,489	751	46,271	147,121
Disposal	-	(16,055)	(159)	-	(16,214)
Translation adjustments	-	-	(44)	-	(44)
Balance, March 31, 2016	$ 15,035,800	$ 56,390,377	$ 394,455	$ 255,988	$ 72,076,620
Accumulated depreciation					
Balance, January 1, 2016	$ 12,099,724	$ 52,323,139	$ 359,976	$ -	$ 64,782,839
Depreciation	156,910	389,031	2,673	-	548,614
Disposal	-	(16,055)	(159)	-	(16,214)
Translation adjustments	-	-	(36)	-	(36)
Balance, March 31, 2016	$ 12,256,634	$ 52,696,115	$ 362,454	$ -	$ 65,315,203

(Continued)

	Buildings	Machinery and Equipment	Other Equipment	Advance Payments and Construction in Progress	Total
Accumulated impairment					
Balance, January 1, 2016 and March 31, 2016	$ -	$ 183,521	$ -	$ -	$ 183,521
Carrying amounts, March 31, 2016	$ 2,779,166	$ 3,510,741	$ 32,001	$ 255,988	$ 6,577,896
Cost					
Balance, January 1, 2017	$ 15,080,497	$ 57,303,574	$ 396,988	$ 483,354	$ 73,264,413
Additions	120,902	333,581	-	129,553	584,036
Disposal	-	-	(339)	-	(339)
Reclassified	-	-	300	-	300
Translation adjustments	-	-	(167)	-	(167)
Balance, March 31, 2017	$ 15,201,399	$ 57,637,155	$ 396,782	$ 612,907	$ 73,848,243
Accumulated depreciation					
Balance, January 1, 2017	$ 12,705,146	$ 53,721,268	$ 370,397	$ -	$ 66,796,811
Depreciation	145,375	343,898	2,795	-	492,068
Disposal	-	-	(339)	-	(339)
Translation adjustments	-	-	(88)	-	(88)
Balance, March 31, 2017	$ 12,850,521	$ 54,065,166	$ 372,765	$ -	$ 67,288,452
Accumulated impairment					
Balance, January 1, 2017 and March 31, 2017	$ -	$ 183,521	$ -	$ -	$ 183,521
Carrying amounts, March 31, 2017	$ 2,350,878	$ 3,388,468	$ 24,017	$ 612,907	$ 6,376,270

(Concluded)

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

Buildings	
Main plants	20 years
Mechanical and electrical power equipment	5 to 10 years
Clean rooms	10 years
Machinery and equipment	3 to 5 years
Other equipment	3 to 7 years

17. INTANGIBLE ASSETS

	Three Months Ended March 31	
	2017	2016
Computer software		
Cost		
Balance, January 1	$ 788,983	$ 779,436
Additions	1,284	-
Reclassified to property, plant and equipment	(300)	-
Balance, March 31	789,967	779,436

(Continued)

	Three Months Ended March 31	
	2017	2016
Accumulated amortization		
Balance, January 1	$ 758,701	$ 737,840
Amortization	5,163	5,019
Balance, March 31	763,864	742,859
Carrying amount, end of period	$ 26,103	$ 36,577

(Concluded)

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

Computer software	3 to 5 years

18. OTHER ASSETS

	March 31, 2017	December 31, 2016	March 31, 2016
Pledged time deposit	$ 303,736	$ 303,704	$ 303,596
Other financial assets	91,110	96,597	160,900
Others	2,853	2,788	2,471
	$ 397,699	$ 403,089	$ 466,967
Current	$ 93,963	$ 99,385	$ 163,371
Non-current	303,736	303,704	303,596
	$ 397,699	$ 403,089	$ 466,967

19. OTHER PAYABLES

	March 31, 2017	December 31, 2016	March 31, 2016
Bonus	$ 425,342	$ 742,580	$ 232,458
Maintenance	529,506	506,275	388,264
Utilities	137,255	124,321	133,749
Others	699,863	778,306	661,122
	$ 1,791,966	$ 2,151,482	$ 1,415,593

20. OTHER CURRENT LIABILITIES

	March 31, 2017	December 31, 2016	March 31, 2016
Advance receipts	$ 96,630	$ 109,809	$ 102,643
Others	187	5,075	-
	$ 96,817	$ 114,884	$ 102,643

21. PROVISIONS - CURRENT

	March 31, 2017	December 31, 2016	March 31, 2016
Sales returns and allowances	$ 208,201	$ 236,336	$ 192,326

The provision of sales returns and allowances was estimated based on historical experience, management's judgments and any other known factors that would affect the returns and allowances. The provision was recognized as a reduction of revenue in the periods of the related products sold.

22. RETIREMENT BENEFIT PLANS

For the three months ended March 31, 2017 and 2016, the pension cost of defined benefit plans amounted to $4,549 thousand and $4,816 thousand, respectively, which were calculated using the actuarially determined pension cost discount rates as of December 31, 2016 and 2015.

23. EQUITY

a. Capital stock

Common stock

	March 31, 2017	December 31, 2016	March 31, 2016
Authorized shares (in thousands)	3,300,000	3,300,000	3,300,000
Authorized capital	$ 33,000,000	$ 33,000,000	$ 33,000,000
Issued and fully paid shares (in thousands)	1,638,982	1,638,982	1,638,982
Issued capital	$ 16,389,823	$ 16,389,823	$ 16,389,823

The authorized shares include 300,000 thousand shares reserved for the exercise of employee stock options.

b. Capital Surplus

	March 31, 2017	December 31, 2016	March 31, 2016
May be used to offset a deficit, distributed by cash or transferred to capital			
Arising from issuance of common stock	$ 544,884	$ 544,884	$ 544,884
May be used to offset a deficit only			
Arising from employee stock options (transferred and inactive)	285,845	285,845	285,845
Arising from share of changes in equities of subsidiaries, associates and joint ventures	31,571	31,865	24,185
	$ 862,300	$ 862,594	$ 854,914

The capital surplus from stock issued in excess of par may be used to offset a deficit; in addition, when the Group has no deficit, such capital surplus may be distributed in cash or stock transferred to capital, which are limited to a certain percentage of the Group's paid-in capital.

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 7, 2016 and, in that meeting, had resolved amendments to the Corporation's Articles of Incorporation (the "Articles"), particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees' compensation and remuneration to directors. Please refer to b. Employee benefits expense in Note 25.

Under the dividend policy as set forth in the amended Articles, where the Corporation made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing 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 Corporation's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for distribution of dividends and bonus to shareholders.

The Corporation's Articles also stipulate that all profits may be distributed after taking into consideration to financial, business and operational factors. Dividends are in cash and/or in the form of stock. Since the Corporation's operation is at the steady growth stage, the cash dividend paid (in any given year) should be at least 60% of the dividends of the current year's appropriation. If there is no profit for distribution, or the profit is far less than the profit actually distributed by the Corporation in the previous year or other reasons so require, all or part of the capital surplus may be distributed in accordance with relevant laws or regulations of the authorities in charge.

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

The Corporation appropriates or reverses a special reserve in accordance with Rule No. 1010012865 and Rule No. 1010047490 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs". Distributions can be made out of any subsequent reversal of the debit to other equity items.

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

The appropriations of earnings for 2016 and 2015 had been proposed by the board of directors on February 21, 2017 and approved in the shareholders' meeting on June 7, 2016, respectively, were as follows:

	Appropriation of Earnings		Dividend Per Share (NT$)	
	2016	2015	2016	2015
Provision of legal reserve	$ 553,793	$ 415,758	$ -	$ -
(Reversal) provision of special reserve	(77,854)	45,305	-	-
Cash dividends	4,916,947	4,261,354	3.00	2.60

The appropriation of earnings for 2016 are subject to the resolution of the shareholders' meeting to be held on June 16, 2017.

d. Other equity

1) Exchange differences on translation of foreign operations

	Three Months Ended March 31	
	2017	**2016**
Balance, beginning of period	$ (38,066)	$ (41,010)
Exchange differences arising from translation of foreign operations	(207,189)	(11,554)
Share of exchange differences of associates accounted for using equity method	(3)	(220)
Disposal of foreign associates	-	685
Balance, end of period	$ (245,258)	$ (52,099)

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

	Three Months Ended March 31	
	2017	**2016**
Balance, beginning of period	$ 110	$ (74,801)
Unrealized gain arising from available-for-sale financial assets	84	75,872
Balance, end of period	$ 194	$ 1,071

Unrealized gains or losses on available-for-sale financial assets represent the cumulative gains or losses arising from the revaluation of available-for-sale financial assets that have been recognized in other comprehensive income netting the amounts reclassified to profit or loss when those assets have been disposed of or are determined to be impaired.

24. REVENUE

Revenue of the Group for the three months ended March 31, 2017 and 2016 were analyzed as follows:

	Three Months Ended March 31	
	2017	**2016**
Wafer foundry	$ 6,177,557	$ 6,137,596
Other revenue	85,874	76,956
	$ 6,263,431	$ 6,214,552

The Group designated certain foreign sales as hedged items to hedge the risk of cash flow. Losses on the hedging instrument amounting to $1,815 thousand and $7,101 thousand that were determined to be an effective hedge were reclassified as decrease of revenue for the three months ended March 31, 2017 and 2016, respectively.

25. OTHER ITEMS IN THE STATEMENTS OF COMPREHENSIVE INCOME

a. Depreciation and amortization

	Three Months Ended March 31	
	2017	2016
Property, plant and equipment	$ 492,068	$ 548,614
Intangible assets	5,163	5,019
	$ 497,231	$ 553,633
Classification of depreciation - by function		
Cost of revenue	$ 473,874	$ 535,979
Operating expenses	18,194	12,635
	$ 492,068	$ 548,614
Classification of amortization - by function		
Cost of revenue	$ 2,718	$ 2,656
Operating expenses	2,445	2,363
	$ 5,163	$ 5,019

b. Employee benefits expense

	Three Months Ended March 31	
	2017	2016
Post-employment benefits		
Defined contribution plans	$ 52,846	$ 45,983
Defined benefit plans (see Note 22)	4,549	4,816
	57,395	50,799
Other employee benefits	1,525,766	1,464,109
Total employee benefits expense	$ 1,583,161	$ 1,514,908
Employee benefits expense summarized by function		
Cost of revenue	$ 1,252,498	$ 1,191,442
Operating expenses	330,663	323,466
	$ 1,583,161	$ 1,514,908

In compliance with the Company Act as amended in May 2015 and the amendments to the Articles as resolved by the shareholders' meeting on June 2016, the Corporation should distribute no less than 10% of the current year's profit as employees' compensation in the form of stock or in cash as resolved by the board of directors. The employees include those of subsidiaries meeting some conditions agreed by the board of directors. The Corporation should also distribute no higher than 1% of the current year's profit as remuneration to directors. However, the Corporation's accumulated losses shall have been covered. For the three months ended March 31, 2017 and 2016, the employees' compensation were $152,299 thousand and $199,430 thousand, respectively. For the three months ended March 31, 2017 and 2016, the remuneration to directors were $2,475 thousand and $2,685 thousand, respectively. The above calculation were at a certain percentage of the base income.

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

The appropriations of employees' compensation and remuneration to directors for 2016 and 2015 were resolved by the board of directors on February 21, 2017 and January 27, 2016, respectively. The amounts of the employees' compensation and remuneration to directors are disclosed on the table below. After the amendments to the Articles resolving in the shareholder's meeting on June 7, 2016, the appropriations of the employees' compensation and remuneration to directors for 2015 were reported in the shareholders' meeting.

	For the Years Ended December 31			
	2016		2015	
	Cash	**Stock**	**Cash Bonus**	**Stock Bonus**
Employees' compensation	$ 831,803	$ -	$ 623,638	$ -
Remuneration to directors	14,100	-	13,384	-

The employees' compensation and the remuneration to directors for 2016 and 2015 were resolved by the board of directors on February 21, 2017 and January 27, 2016, respectively. The respective amounts recognized in the consolidated financial statements were as follows:

	For the Years Ended December 31			
	2016		2015	
	Employees' Compensation	**Remuneration of Directors**	**Employees' Compensation**	**Remuneration of Directors**
Amounts resolved by the board of directors	$ 831,803	$ 14,100	$ 623,638	$ 13,384
Amounts recognized in the annual financial statements	$ 831,803	$ 14,100	$ 623,638	$ 13,588

The difference of 2015 remuneration of directors was adjusted to profit and loss for the year ended December 31, 2016.

Information of the employees' compensation and remuneration to directors resolved by the Corporation's board of directors in 2017 and 2016 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

26. INCOME TAX

a. Major components of tax expenses recognized in profit or loss:

	Three Months Ended March 31	
	2017	**2016**
Current tax		
In respect of the current period	$ 203,843	$ 228,109
Adjustments for prior years' tax	(115,898)	(56,264)
Others	(473)	(97)
	87,472	171,748
Deferred income tax		
In respect of the current period	(8,992)	6,880
Income tax expenses recognized in profit or loss	$ 78,480	$ 178,628

b. Integrated income tax

	March 31, 2017	December 31, 2016	March 31, 2016
Balance of the Imputation Credit Account - the Corporation	$ 775,454	$ 775,454	$ 931,521

The expected and actual creditable ratios for distributing the earnings of 2016 and 2015 were 14.42% and 16.10%, respectively.

Under the Income Tax Law, for distribution of earnings generated after January 1, 1998, the imputation credits allocated to ROC resident shareholders of the Corporation is calculated based on the creditable ratio as of the date of dividend distribution. The actual imputation credit allocated to shareholders of the Corporation is based on the balance of the Imputation Credit Accounts as of the date of dividend distribution. Therefore, the expected creditable ratio for the 2016 earnings may differ from the actual creditable ratio to be used in allocating imputation credit to the shareholders.

The unappropriated retained earnings as of December 31, 2016 and 2015 did not contain the unappropriated earnings generated before January 1, 1998.

c. Income tax exemption with respect to the issuance of shares

The Corporation was granted a five-year income tax exemption period with respect to the issuance of shares from the appropriation for year 2005. The income tax exemption period is from January 1, 2012 to December 31, 2016.

d. Income tax assessments

Income tax returns through 2015 had been examined and cleared by the tax authorities.

27. EARNINGS PER SHARE

Unit: NT$ Per Share

	Three Months Ended March 31	
	2017	2016
Basic earnings per share	$ 0.70	$ 0.83
Diluted earnings per share	$ 0.70	$ 0.82

The earnings and weighted average number of common shares used in the computation of earnings per share were as follows:

Earnings

	Three Months Ended March 31	
	2017	2016
Earnings used in computation of basic earnings per share	$ 1,150,449	$ 1,353,171
Effect of dilutive potential common stocks:		
Employees’ compensation	-	-
Earnings used in the computation of diluted earnings per share	$ 1,150,449	$ 1,353,171

Shares

	Three Months Ended March 31	
	2017	2016
Weighted average number of common stocks used in the computation of basic earnings per share	1,638,982	1,638,982
Effect of dilutive potential common shares:		
Employees' compensation	10,213	8,442
Weighted average number of common stocks used in the computation of diluted earnings per share	1,649,195	1,647,424

Since the Corporation is allowed to settle compensation paid to employees by cash or shares, the Corporation assumed that the entire amount of the compensation 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 shares had dilutive effect. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the shareholders resolve the number of shares to be distributed to employees at their meeting in the following year.

28. OPERATING LEASE ARRANGEMENTS

The Group as lessee

The Group leases the sites of its manufacturing plant and parking lot from the Hsinchu Science-Based Industrial Park Administration and a certain individual under renewable operating lease agreements expiring on various dates from December 2019, December 2027, December 2029 and December 2034. The rental pay to Hsinchu Science-Based Industrial Park Administration can be adjusted according to the lease contract, and the lease is renewable upon expiration.

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

	March 31, 2017	December 31, 2016	March 31, 2016
Not later than 1 year	$ 77,852	$ 77,120	$ 83,476
Later than 1 year and not later than 5 years	314,727	313,513	329,045
Later than 5 years	575,618	595,023	676,371
	$ 968,197	$ 985,656	$ 1,088,892

The lease payments recognized as expenses were as follows:

	Three Months Ended March 31	
	2017	2016
Minimum lease payment	$ 19,280	$ 19,586

29. CAPITAL MANAGEMENT

The objectives, policies, process of capital risk management and the capital structures of the Group in these consolidated financial statements were applied as the same as in the preparation of the consolidated financial statements for the year ended December 31, 2016. Please refer to Note 29 to the consolidated financial statements for the year ended December 31, 2016 for details.

30. FINANCIAL INSTRUMENTS

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

Financial assets and liabilities with material difference between carrying value and fair value

Except as detailed in the following table, the management considered that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values or their fair values could not be reliably measured.

	March 31, 2017			December 31, 2016			March 31, 2016		
	Carrying	Fair Value		Carrying	Fair Value		Carrying	Fair Value	
	Amount	Level 1	Level 2	Amount	Level 1	Level 2	Amount	Level 1	Level 2
Financial assets									
Held-to-maturity financial assets	$ 2,248,403	$ 2,239,286	$ -	$ 1,888,367	$ 1,874,119	$ -	$ 49,621	$ 49,603	$ -
Other current assets									
Structured time deposit	91,110	-	91,034	96,597	-	96,509	160,900	-	161,164

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

1) Fair value hierarchy

The fair value hierarchies of financial assets and liabilities measured at fair value on a recurring basic were as follows:

March 31, 2017

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial instruments	$ -	$ 1,079,370	$ -	$ 1,079,370
Available-for-sale financial assets				
Domestic listed stocks - equity investments	$ 13,817	$ 30,000	$ -	$ 43,817
Bond investments	520,000	-	-	520,000
	$ 533,817	$ 30,000	$ -	$ 563,817
Financial liabilities at FVTPL				
Derivative financial instruments	$ -	$ 1,653	$ -	$ 1,653

December 31, 2016

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial instruments	$ -	$ 1,428,086	$ -	$ 1,428,086
Available-for-sale financial assets				
Domestic listed stocks - equity investments	$ 13,648	$ 30,000	$ -	$ 43,648
Bond investments	524,419	-	-	524,419
	$ 538,067	$ 30,000	$ -	$ 568,067
Financial liabilities at FVTPL				
Derivative financial instruments	$ -	$ 43,029	$ -	$ 43,029

March 31, 2016

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial instruments	$ -	$ 1,441,623	$ -	$ 1,441,623
Available-for-sale financial assets				
Domestic listed stocks - equity investments	$ 14,603	$ 67,800	$ -	$ 82,403
Financial liabilities at FVTPL				
Derivative financial instruments	$ -	$ 6,180	$ -	$ 6,180

There were no transfers between Level 1 and 2 of the fair value hierarchy for the three months ended March 31, 2017 and 2016, respectively.

There were no acquisition or disposal of financial assets measured by Level 3 of the fair value hierarchy for the three months ended March 31, 2017 and 2016, respectively.

2) Valuation techniques and assumptions applied to Level 2 of fair value hierarchy

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

a) For those instruments such as derivative financial instruments with no quoted market prices, their fair values are determined by using valuation techniques incorporating estimates and assumptions consistent with those generally used by other market participants in their estimates of fair values.

   Fair values of forward exchange contacts and currency-swap contracts are determined by using valuation techniques based on forward rates for each contract. The Reuter's quotation system is mainly used as reference for the forward rates.

b) For the private placement shares issued by listed companies with no quoted market prices, the fair value is determined by using valuation techniques incorporating estimates and assumptions consistent with those generally used by other market participants in their estimates of fair values.

   The Group used "Black-Scholes model" to determine the fair value.

c. Categories of financial instruments

	March 31, 2017	December 31, 2016	March 31, 2016
Financial assets			
Fair value through profit or loss (FVTPL)			
Held for trading	$ 101,390	$ 3,555	$ 191,284
Designated as at FVTPL	974,430	1,424,531	1,233,234
Derivative instruments in designated hedge accounting	3,550	-	17,105
Held-to-maturity financial assets	2,248,403	1,888,367	49,621
Loans and receivables (Note 1)	22,880,565	22,080,243	23,095,305
Available-for-sale financial assets (Note 2)	649,144	653,394	145,120
Financial liabilities			
Fair value through profit or loss (FVTPL)			
Held for trading	823	43,029	-
Derivative instruments in designated hedge accounting	830	-	6,180
Measured at amortized cost (Note 3)	4,324,326	4,477,709	3,567,479

Note 1: The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, notes and accounts receivable, other receivables, and other financial assets.

Note 2: The balances included the carrying amount of available-for-sale financial assets measured at cost.

Note 3: The balances included financial liabilities measured at amortized cost, which comprise accounts payables and other payables.

d. Objective and policies of financial risk management

The Group’s major financial instruments include equity and bond investments, accounts receivable and accounts payables. The Group’s corporate finance function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The Group seeks to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by the Group’s policies approved by the board of directors, which provided written principles on foreign exchange risk, interest rate risk, credit risk, the use of derivatives and non-derivative financial instruments, and the investment of excess liquidity. The compliance with policies and the control of exposure limits are continuously reviewed by the internal auditors on a continuous basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The corporate finance function reports quarterly to the Group’s board of directors and audit committee for their independent mentorship to risks and policy implementation.

1) Market risk

The Group's activities are exposed to the financial risks primarily arising from the changes in foreign currency exchange rates (see (a) below), interest rates (see (b) below) and other prices (see (c) below). The Group enters into a variety of derivative financial instruments including forward exchange and currency - swap contracts to manage its exposure to foreign currency risk.

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

a) Foreign currency risk

The Group's operating activities are partially denominated in foreign currencies and apply natural hedge. The purpose of the Group's management of the foreign currency risk is to hedge the risk instead of making a profit.

The strategy of foreign currency risk management is to review the net position exposed to foreign currency risk and manage the risk of the net position. The Group selects the instruments to hedge currency exposure by considering the hedge cost and hedge period. The Group currently utilizes derivative financial instruments, primarily buy/sell forward exchange contracts, to hedge its currency exposure.

The Group use forward exchange contracts to eliminate currency exposure. It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item for maximizing the hedge effectiveness.

Investing in foreign operations is for strategic purposes, it is not hedged by the Group.

Sensitivity analysis

The Group is mainly exposed to the exchange rate fluctuation of USD and RMB.

The following table details the Group's sensitivity to a 5% increase and decrease in the New Taiwan dollars (the functional currency) against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items (including cash and cash equivalents, financial assets, accounts receivable, other receivables, accounts payable, and other payables) and the hedge contracts, for which their translation at period end is adjusted for a 5% change in foreign currency rates. The following table indicates the influences which the New Taiwan dollars strengthen 5% against the relevant currency.

	Impact on USD Items	
	Three Months Ended March 31	
	2017	**2016**
Loss	$ (160,013)	$ (78,372)

	Impact on RMB Items	
	Three Months Ended March 31	
	2017	**2016**
Loss	$ -	$ (29,294)

b) Interest rate risk

The Group's financial assets are exposed to interest rate risk both at fixed and floating interest rates.

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

	March 31, 2017	**December 31, 2016**	**March 31, 2016**
Fair value interest rate risk			
Financial assets	$ 20,257,720	$ 19,699,152	$ 15,824,670
Cash flow interest rate risk			
Financial assets	2,482,813	2,103,369	4,728,590

Sensitivity analysis

The sensitivity analyses below are determined based on the Group's exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate assets, the analysis is prepared assuming the amount of the asset at the end of the reporting date is outstanding during the reporting period.

If the market interest rate increases/decrease by 0.1% and all other variables remain constant, the pre-tax profit of the Group for the three months ended on March 31, 2017 and 2016 will increases/decrease $621 thousand and $1,182 thousand, respectively, resulting from the exposure of the net assets with floating rate.

c) Other price risk

The Group is exposed to price risk arising from its investments in available-for-sale stocks and bonds. Investments are held for strategic rather than trading purposes. The Group does not actively trade these investments. The Group's security price risk is mainly concentrated on equity and bond instruments quoted in the Taiwan Stock Exchange and GreTai Securities Market.

Sensitivity analysis

The sensitivity analyses below were determined based on the exposure to security price risks at the end of the reporting period.

If available-for-sale stocks and bonds prices had been 5% higher/lower, the other comprehensive income for the three months ended March 31, 2017 and 2016 would have increase/decrease by $28,191 thousand and $4,120 thousand, respectively, as a result of the changes in fair value of available-for-sale financial investments in stocks and bonds.

2) Credit risk

Credit risk refers to the risk that a counterpart will default on its contractual obligations and result in financial loss to the Group. As of the end of the reporting period, the Group may have a financial loss due to the default on obligation from counterparts, and the maximum exposure to credit risk is the carrying amount of the respective recognized financial assets as stated in the consolidated balance sheets.

In order to mitigate credit risk, the Group has made the policy of credit management to ensure that appropriate action is taken to recover overdue receivables. In addition, the Group reviews the recoverable amount of each receivable debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Group considers the credit risk is significantly reduced.

The credit risk on operating funds and derivatives is limited as the counterparts are creditworthy banks.

The Group's accounts receivable outstanding arose from trading with its customers spreading across diverse industries and geographical areas. The balances are monitored on an ongoing basis by evaluating the customer's financial condition.

The Group's credit concentration risk was related to the 5 largest customers. Besides the 5 largest customers, credit concentration risks related to other customers do not exceed 10% of total gross accounts receivables at any time during the period. The 5 largest customers are creditworthy counterparts, therefore, the Group believes the concentration of credit risk is insignificant for the remaining accounts receivable.

3) Liquidity risk

The Group manages liquidity risk by monitoring and maintaining adequate reserves of cash and cash equivalents to fund the Group's operations and mitigate the effects of fluctuations in cash flows.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

March 31, 2017

	Less than 1 Year	More than 1 Year
Non-derivative financial liabilities		
Non-interest bearing	$ 4,324,326	$ -

December 31, 2016

	Less than 1 Year	More than 1 Year
Non-derivative financial liabilities		
Non-interest bearing	$ 4,477,709	$ -

March 31, 2016

	Less than 1 Year	More than 1 Year
Non-derivative financial liabilities		
Non-interest bearing	$ 3,567,479	$ -

The following tables detail the Group's liquidity analysis for its derivative financial instruments. The tables were based on the undiscounted net inflows and outflows from those derivatives with gross settlement.

March 31, 2017

	Less than 1 Year	More than 1 Year
Gross settled		
Forward exchange contracts		
Inflows	$ 2,993,952	$ -
Outflows	(2,890,665)	-
	$ 103,287	$ -

December 31, 2016

	Less than 1 Year	More than 1 Year
Gross settled		
Forward exchange contracts		
Inflows	$ 5,721,697	$ -
Outflows	(5,761,171)	-
	$ (39,474)	$ -

March 31, 2016

	Less than 1 Year	More than 1 Year
Gross settled		
Forward exchange contracts		
Inflows	$ 6,972,881	$ -
Outflows	(6,770,672)	-
	$ 202,209	$ -

31. TRANSACTIONS WITH RELATED PARTIES

Intercompany balances and transactions between the Corporation and its subsidiaries, which are related parties of the Corporation, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties were disclosed below.

a. Name and relationship of related parties

Name	Relationship with the Group
Taiwan Semiconductor Manufacturing Company Ltd.	Investors that have significant influence over the Group
Image Match Design Inc.	Key management personnel
Advanced Microelectronic Products Inc.	Key management personnel
INNO-TECH Co., Ltd.	Key management personnel
Goyatek Technology Inc.	Key management personnel
Global Unichip Corp.	Substantial related parties
CMSC, Inc.	Associates
Quora Technology, Inc.	Associates

b. Operating transactions

	Revenue from Sales of Goods	
	Three Months Ended March 31	
	2017	2016
Investors that have significant influence over the Group		
Taiwan Semiconductor Manufacturing Company Ltd.	$ 1,637,863	$ 1,657,148
Associates	$ 7,561	$ 5,454
Key management personnel	$ 20,858	$ 4,326
Substantial related parties	$ 14,063	$ 11,353

	Manufacturing Expenses		Research and Development Expenses	
	Three Months Ended March 31		Three Months Ended March 31	
	2017	2016	2017	2016
Investors that have significant influence over the Group	$ 91,796	$ 108,849	$ 827	$ 17
Associates	$ -	$ -	$ 94	$ -

	Marketing Expenses	
	Three Month Ended March 31	
	2017	2016
Investors that have significant influence over the Group	$ -	$ 418

	Rental Revenue		Nonoperating Income and Gains	
	Three Months Ended March 31		Three Months Ended March 31	
	2017	2016	2017	2016
Investors that have significant influence over the Group				
Taiwan Semiconductor Manufacturing Company Ltd.	$ -	$ 1,480	$ 2,947	$ 2,761
Key management personnel	-	-	-	258
	$ -	$ 1,480	$ 2,947	$ 3,019

The following balances were outstanding at the end of the reporting period:

	Receivables from Related Parties		
	March 31, 2017	December 31, 2016	March 31, 2016
Investors that have significant influence over the Group			
Taiwan Semiconductor Manufacturing Company Ltd.	$ 604,897	$ 586,847	$ 528,728
Key management personnel	18,586	14,469	965
Associates	6,720	4,817	4,232
Substantial related parties	3,216	7,081	9,223
	$ 633,419	$ 613,214	$ 543,148

	Other Receivables from Related Parties		
	March 31, 2017	December 31, 2016	March 31, 2016
Investors that have significant influence over the Group	$ -	$ 560	$ 2,749
Taiwan Semiconductor Manufacturing Company Ltd.			
Key management personnel			
Image Match Design, Inc.	-	264	66
Advanced Microelectronic Products Inc.	-	-	514
	$ -	$ 824	$ 3,329

	Other Payables to Related Parties		
	March 31, 2017	December 31, 2016	March 31, 2016
Investors that have significant influence over the Group			
Taiwan Semiconductor Manufacturing Company Ltd.	$ 83,956	$ 85,535	$ 97,055
Substantial related parties	-	135	-
	$ 83,956	$ 85,670	$ 97,055

	Guarantee Deposits (Other Non-current Liabilities)		
	March 31, 2017	December 31, 2016	March 31, 2016
Investors that have significant influence over the Group	$ -	$ -	$ 1,362

The terms of sales transactions with related parties were not significantly different from those with third parties. However, for other related-party transactions, license fees, research and development expenses, there were no similar transactions in the market; thus, transaction terms were determined in accordance with related contracts.

The Group leased certain plant and offices to related parties. The lease terms and prices were determined in accordance with mutual agreements. Related parties paid the rental monthly.

Guarantee deposits of related parties were for lease.

c. Compensation of key management personnel

	Three Months Ended March 31	
	2017	2016
Short-term employee benefits	$ 32,481	$ 34,885
Post-employment benefits	673	605
	$ 33,154	$ 35,490

The remuneration to directors and other key management personnel were determined by the Compensation Committee in accordance with the individual performance and the market trends.

32. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets had been pledged as collateral for the guarantee of customs duty and lease of the manufacturing plant from the Hsinchu Science-Based Industrial Park Administration:

	March 31, 2017	December 31, 2016	March 31, 2016
Pledged time deposits (presented under other non-current assets)	$ 303,736	$ 303,704	$ 303,596

33. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

The significant commitments of the Group as of March 31, 2017 were as follows:

The Corporation entered into a "Manufacturing, License, and Technology Transfer Agreement" with Taiwan Semiconductor Manufacturing Company Ltd. beginning January 1, 2004 to pay fees according to the net sales of certain products and reserve a portion of its production capacity.

34. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

	March 31, 2017		March 31, 2016	
	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate
Financial assets				
Monetary items				
USD	$ 350,568	30.37	$ 285,280	32.18
EUR	163	32.59	187	36.66
JPY	26,599	0.2731	14,724	0.2880
RMB	-	-	117,814	4.973
Non-monetary items				
USD	5,410	30.37	4,959	32.18
Financial liabilities				
Monetary items				
USD	27,977	30.37	22,901	32.18
EUR	1,137	32.59	833	36.66
JPY	177,321	0.2731	178,473	0.2880

	December 31, 2016	
	Foreign Currencies	Exchange Rate
Financial assets		
Monetary items		
USD	$ 316,305	32.199
EUR	226	34.30
JPY	82,646	0.2780
Non-monetary items		
USD	5,583	32.199
Financial liabilities		
Monetary items		
USD	26,229	32.199
EUR	907	34.30
JPY	205,024	0.2780

The significant unrealized foreign exchange losses were as follows:

	Three Months Ended March 31					
	2017			2016		
Foreign Currencies	Exchange Rate		Net Foreign Exchange Gain (Loss)	Exchange Rate		Net Foreign Exchange Gain (Loss)
USD	31.409	(USD:NTD)	$ (160,863)	33.207	(USD:NTD)	$ (189,343)
EUR	33.55	(EUR:NTD)	104	36.62	(EUR:NTD)	1,016
JPY	0.2763	(JPY:NTD)	(1,619)	0.2853	(JPY:NTD)	827
RMB	-		-	5.047	(RMB:NTD)	1,818
			$ (162,378)			$ (185,682)

35. SEPARATELY DISCLOSED ITEMS

Information on significant transactions and information on investees:

a. Financing provided to others: None.

b. Endorsement/guarantee provided: None.

c. Marketable securities held (excluding investment in subsidiaries, associates and jointly ventures): Table 1 (attached)

d. Marketable securities acquired and disposed of at costs or prices of at least NT$300 million or 20% of the paid-in capital: Table 2 (attached)

e. Acquisition of individual real estate at costs of at least NT$300 million or 20% of the paid-in capital: None.

f. Disposal of individual real estate at prices of at least NT$300 million or 20% of the paid-in capital: None.

g. Total purchases from or sales to related parties amounting to at least NT$100 million or 20% of the paid-in capital: Table 3 (attached)

h. Receivable from related parties amounting to at least NT$100 million or 20% of the paid-in capital: Table 4 (attached)

i. Trading in derivative instruments: Notes 7 and 10.

j. Intercompany relationships and significant intercompany transactions: Table 5 (attached)

k. Information on investees: Table 6 (attached)

l. Information on investment in Mainland China: None.

36. SEGMENT INFORMATION

For the purpose of resources allocation and performance assessment, the Group’s chief operating decision maker reviews operating results and financial information on a per plant basis. It focuses on the operating result of each of the plants operated under Vanguard International Semiconductor Corporation and its subsidiaries. Accordingly, each of the plants constitutes an operating segment of the Group. As each plant shares similar economic characteristics, produces similar products by using similar production process and all of products produced are distributed and sold to the same level of customers through a central sales function, the Group’s segments are aggregated into a single reportable segment.

The revenues, operating results and financial information on a plant by plant basis presented to the chief operating decision maker are consistent with the information in the consolidated financial statement. The segment revenues and operating results for the three months ended March 31, 2017 and 2016 can be referred to the consolidated statements of comprehensive income for the three months ended March 31, 2017 and 2016. The segment assets as of March 31, 2017, December 31, 2016 and March 31, 2016 can be referred to the consolidated balance sheets as of March 31, 2017, December 31, 2016 and March 31, 2016.

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

MARKETABLE SECURITIES HELD
MARCH 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Holding Company Name	Marketable Security Type and Name (Note1)	Relationship with the Securities Issuer	Financial Statement Account	March 31, 2017				Note
				Shares Units (Thousands Thousands Units)	Carrying Value	% of Ownership	Market Value or Net Asset Value	
	Structured instruments							
Vanguard International Semiconductor Corporation	TWM credit linked structured investment notes	-	Financial assets at fair value through profit or loss - current	-	$ 100,067	-	$ 100,067	Note 4
	SKFH credit linked structured investment notes	-	Financial assets at fair value through profit or loss - current	-	100,103	-	100,103	Note 4
	Gigasolar credit linked structured investment notes	-	Financial assets at fair value through profit or loss - current	-	10,018	-	10,018	Note 4
	WPG credit linked structured investment notes	-	Financial assets at fair value through profit or loss - current	-	20,040	-	20,040	Note 4
	Tong Hsing credit linked structured investment notes	-	Financial assets at fair value through profit or loss - current	-	54,800	-	54,800	Note 4
	Everlight credit linked structured investment notes	-	Financial assets at fair value through profit or loss - current	-	50,098	-	50,098	Note 4
	Competition Team Tech. Ltd. U.S. dollar Bonds	-	Financial assets at fair value through profit or loss - current	-	61,420	-	61,420	Note 4
	TSMC U.S. dollar Bonds	-	Financial assets at fair value through profit or loss - current	-	61,359	-	61,359	Note 4
	Cathay United Bank interest linked structured investment notes	-	Financial assets at fair value through profit or loss - current	-	91,005	-	91,005	Note 4
	Yuanta interest linked principal guarantee notes	-	Financial assets at fair value through profit or loss - current	-	425,520	-	425,520	Note 4
	Bonds							
	ADSEMI Corporation Bonds	-	Available-for-sale financial assets - current	-	60,784	-	60,784	Note 2
	Shanghai Commercial & Saving Bank 2012 2nd Subordinated Financial Debentures	-	Available-for-sale financial assets - noncurrent	-	101,399	-	101,399	Note 2
	MEGA Bank 2014 1st Subordinated Financial Debentures	-	Available-for-sale financial assets - noncurrent	-	102,334	-	102,334	Note 2
	MEGA Bank 2014 2nd Subordinated Financial Debentures	-	Available-for-sale financial assets - noncurrent	-	153,274	-	153,274	Note 2
	Taiwan Cooperative Bank 2014 1st Subordinated Financial Debentures	-	Available-for-sale financial assets - noncurrent	-	102,209	-	102,209	Note 2
	RHB Bank bonds	-	Held-to-maturity financial assets - current	-	91,267	-	91,259	Note 2
	Shinhan Bank bonds	-	Held-to-maturity financial assets - current	-	30,373	-	30,372	Note 2
	Sinopec Group Corp bonds	-	Held-to-maturity financial assets - current	-	45,560	-	45,559	Note 2
	Bank of East Asia Ltd. bonds	-	Held-to-maturity financial assets - current	-	30,390	-	30,390	Note 2
VIS Associates Inc.	Sumitomo Mitsui Banking Corporation Bonds	-	Held-to-maturity financial assets - noncurrent	-	214,231	-	212,356	Note 2
	QNB Finance Ltd. bonds	-	Held-to-maturity financial assets - noncurrent	-	243,832	-	243,883	Note 2
	Standard Chartered PLC bonds	-	Held-to-maturity financial assets - noncurrent	-	263,954	-	260,908	Note 2
	Bank of China Limited, Luxembourg Branch bonds	-	Held-to-maturity financial assets - noncurrent	-	142,817	-	141,469	Note 2
	Industrial and Commercial Bank of China Limited, sydney Branch bonds	-	Held-to-maturity financial assets - noncurrent	-	63,901	-	63,668	Note 2
	China Construction Bank (Asia) Co., Ltd. Bonds	-	Held-to-maturity financial assets - noncurrent	-	151,859	-	149,769	Note 2
	TSMC Global Ltd. bonds	-	Held-to-maturity financial assets - noncurrent	-	242,778	-	242,401	Note 2
	Mizuho Bank Ltd. bonds	-	Held-to-maturity financial assets - noncurrent	-	243,848	-	243,495	Note 2
	Bank of China (Hong Kong) Limited bonds	-	Held-to-maturity financial assets - noncurrent	-	162,351	-	163,664	Note 2
	Horsepower Finance Ltd. bonds	-	Held-to-maturity financial assets - noncurrent	-	60,275	-	60,060	Note 2
	Inventive Global Investments Ltd. bonds	-	Held-to-maturity financial assets - noncurrent	-	260,967	-	260,033	Note 2
	Stock							
Vanguard International Semiconductor Corporation	Champion Microelectronic Corp.	Investee	Available-for-sale financial assets - noncurrent	375	13,817	1	13,817	Note 2
	Advanced Microelectronic Products Inc.	Investee	Available-for-sale financial assets - noncurrent	30,000	30,000	9	30,000	Note 4
	United Industrial Gases Co., Ltd.	Investee	Financial assets carried at cost - noncurrent	4,246	38,717	2	38,717	Note 3
	Image Match Design Inc.	Investee	Financial assets carried at cost - noncurrent	1,400	14,000	5	14,000	Note 3
	AnDAPT Inc.	Investee	Financial assets carried at cost - noncurrent	1,000	32,610	7	32,610	Note 3

Note 1: Marketable securities mentioned in the table include stocks, bonds, beneficiary certificate and the derivative securities from aforementioned items.

Note 2: The market value was based on stock closing price as of March 31, 2017.

Note 3: The market value was based on the book value as of March 31, 2017.

Note 4: The fair value was based on valuation techniques.

Note 5: As of March 31, 2017, all the securities were not pledged or restricted.

Note 6: With respect to the information of subsidiaries, associates and joint ventures, please see TABLE 6.

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE THREE MONTHS ENDED MARCH 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Type and Name of Marketable Securities	Financial Statement Account	Counterparty	Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Shares	Amount	Shares	Amount	Shares	Amount	Carrying Amount	Gain (Loss) on Disposal	Shares	Amount
Vanguard International Semiconductor Corporation	Yuanta interest linked principal guarantee notes	Financial assets at fair value through profit or loss - current	-	-	-	$ 451,293	-	$1,259,260	-	$1,273,955	$1,273,955	$ -	-	$ 425,520

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES OF AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE THREE MONTHS ENDED MARCH 31, 2017
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Transaction Detail				Abnormal Transaction		Notes/Accounts Payable or Receivable		Note
			Purchases/Sales	Amount	% to Total	Payment Term	Unit Price	Payment Term	Ending Balance	% to Total	
Vanguard International Semiconductor Corporation	Taiwan Semiconductor Manufacturing Company Ltd.	Major shareholder	Sales	$ 1,637,863	26	30 days after closing	$ -	-	$ 604,897	16	-

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
MARCH 31, 2017
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
Vanguard International Semiconductor Corporation	Taiwan Semiconductor Manufacturing Company Ltd.	Major shareholder	$ 604,897	10.99	$ -	-	$ 600,919	$ -

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2017
(In Thousands of New Taiwan Dollars)

No.	Company Name	Company Name	Nature of Relationship	Intercompany Transactions			
				Financial Statement Item	Amount	Terms (Note)	Percentage of Consolidated Net Revenue or Total Assets
0	Vanguard International Semiconductor Corporation	VIS Micro, Inc.	Transaction from ultimate parent company to subsidiary	Marketing expenses	$ 20,035	-	0.32%
				Other payables to related parties	9,058	-	0.03%

Note: For intercompany transactions, the terms were based on related agreements.

TABLE 6

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
FOR THE THREE MONTHS ENDED MARCH 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of March 31, 2017			Net Gain (Loss) of the Investee (Foreign Currencies in Thousands)	Investment Gain (Loss) Recognized (Foreign Currencies in Thousands)	Note
				March 31, 2017 (Foreign Currencies in Thousands)	December 31, 2016 (Foreign Currencies in Thousands)	Shares (In Thousands)	Percentage of Ownership	Carrying Value (Foreign Currencies in Thousands)			
Vanguard International Semiconductor Corporation	VIS Associates Inc.	British Virgin Islands	Investments	$ 4,068,023	$ 2,596,782	128	100	$ 4,010,507	$ 15,452	$ 15,452	Subsidiary
	CMSC, Inc.	Hsinchu City, Taiwan	Integrated circuit design services and related businesses	112,650	112,650	9,902	25	57,717	(14,913)	(3,720)	Investment accounted for using equity method
	Quora Technology, Inc.	Delaware, USA	Semiconductor research and development related businesses	166,175 (US$ 5,000)	166,175 (US$ 5,000)	5,000	33	133,924 (US$ 4,410)	(15,601) (US$ (499))	(5,111) (US$ (163))	Investment accounted for using equity method
VIS Associates Inc.	VIS Investment Holding, Inc.	Delaware, USA	Investments	189,813 (US$ 6,250)	189,813 (US$ 6,250)	63	100	68,737 (US$ 2,263)	1,951 (US$ 63)	1,951 (US$ 63)	Subsidiary
VIS Investment Holding, Inc.	VIS Micro, Inc.	California, USA	Marketing services	6,074 (US$ 200)	6,074 (US$ 200)	200	100	54,983 (US$ 1,810)	819 (US$ 26)	819 (US$ 26)	Subsidiary