Nuvoton Technology Corporation

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

Deloitte.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Nuvoton Technology Corporation

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

Key audit matters of the Company's financial statements for the year ended December 31, 2016 are described below:

Impairment of Accounts Receivable

As of December 31, 2016, the carrying amount of the Company's notes and accounts receivable was $472,446 thousand (net of allowance for doubtful accounts of $10,676 thousand); please refer to Notes 5 and 8. Since determining uncollectible amount of accounts receivable is subject to management's judgement, we focused on material and slow-collecting balances of accounts receivable to evaluate the rationale of impairment loss provisioned by management. Our audit procedures in response to impairment of accounts receivable consisted of the following:

1. Assessed the assumptions used by management in provisioning allowance for doubtful accounts, checked the calculation of ageing report used to support the impairment provision, analyzed and compared the ageing distribution, provision rates and actual write-off of doubtful accounts of current year with those of prior year to evaluate the reasonableness of the provision. Assessed the collectability of accounts receivable by checking cash collecting after balance sheet date.

2. Inspected the authorization of customer credit line and reviewed quarterly the transaction records of ledger book to ensure the validity of internal control of accounts receivable.

Valuation of Inventory

As of December 31, 2016, the carrying amount of the Company's inventory was $1,168,969 thousand (net of inventory write-down of $298,521 thousand); please refer to Notes 5 and 9. The accounting policy of provisioning impairment loss included obsolescent loss by reviewing monthly the ageing information contained net realization value of slow-moving inventory items estimated by management based on actual selling records, technology development and the physical quality of inventory. In addition, according to the requirements of IAS 2, inventory other than obsolescent items should be stated at lower of cost or net realization value, and evaluated and recognized appropriate devaluation loss. Our audit procedures in response to valuation of inventory consisted of the following:

1. Performed test of details of inventory ledger to verify proper allocation of materials, labor cost and overheads to inventory items. Examined the subsequent selling prices to confirm the inventory been stated at lower of cost or net realization value.

2. Obtained and tested the ageing report of inventory, compared and analyzed the impairment loss of current year with prior year, selected samples of impairment sheet and inspected the latest selling prices with the sales ledger to assess the appropriateness of the inventory impairment provision policy of the Company.

3. Compared the year-end quantity of inventory items with the inventory count report to confirm the existence and completeness of inventory. Moreover by attending year-end inventory counting, we assessed the condition of inventory and evaluated the adequacy of inventory provision for obsolete and damaged goods.

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

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

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

Those charged with governance (including members of the audit committee) are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Deloitte & Touche

Deloitte & Touche
Taipei, Taiwan
Republic of China

February 3, 2017

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

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

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

NUVOTON TECHNOLOGY CORPORATION

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

	2016		2015	
ASSETS	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	$ 1,459,891	25	$ 1,382,349	26
Notes and accounts receivable, net (Notes 4 and 8)	472,446	8	348,309	7
Accounts receivable due from related parties, net (Notes 4 and 24)	140,763	2	122,670	2
Other receivables	26,556	1	17,698	-
Inventories (Notes 4 and 9)	1,168,969	20	1,025,215	20
Other current assets (Note 21)	209,857	4	79,086	2
Total current assets	3,478,482	60	2,975,327	57
NON-CURRENT ASSETS				
Available-for-sale financial assets, non-current (Notes 4 and 10)	92,876	2	-	-
Financial assets measured at cost, non-current (Notes 4 and 11)	305,493	5	355,184	7
Investments accounted for using equity method (Notes 4 and 12)	1,081,165	18	1,109,330	21
Property, plant and equipment (Notes 4 and 13)	474,952	8	410,239	8
Intangible assets (Notes 4 and 14)	225,964	4	197,238	3
Deferred income tax assets (Notes 4 and 18)	72,000	1	94,000	2
Refundable deposits (Note 6)	64,881	1	64,380	1
Other non-current assets (Note 21)	39,892	1	42,273	1
Total non-current assets	2,357,223	40	2,272,644	43
TOTAL	$ 5,835,705	100	$ 5,247,971	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss, current (Notes 4 and 7)	$ 707	-	$ 1,379	-
Accounts payable	904,486	16	664,834	13
Other payables (Notes 15 and 24)	962,603	16	857,597	16
Current tax liabilities (Notes 4 and 18)	16,109	-	52,885	1
Other current liabilities	96,900	2	32,075	1
Total current liabilities	1,980,805	34	1,608,770	31
NON-CURRENT LIABILITIES				
Products guarantee based on commitment (Note 4)	101,891	2	101,891	2
Accrued pension liabilities (Note 16)	349,817	6	378,733	7
Other non-current liabilities	24,718	-	36,776	1
Total non-current liabilities	476,426	8	517,400	10
Total liabilities	2,457,231	42	2,126,170	41
EQUITY				
Common stock (Note 17)	2,075,544	36	2,075,544	39
Capital surplus				
Additional paid-in capital	63,485	1	63,485	1
Employee share options	13	-	13	-
Retained earnings				
Legal reserve	340,530	6	293,628	6
Unappropriated earnings	786,274	13	627,654	12
Exchange differences on translation of foreign operations (Note 4)	29,280	1	61,477	1
Unrealized gains (losses) on available-for-sale financial assets	83,348	1	-	-
Total equity	3,378,474	58	3,121,801	59
TOTAL	$ 5,835,705	100	$ 5,247,971	100

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

NUVOTON TECHNOLOGY CORPORATION

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

	2016		2015	
	Amount	%	Amount	%
OPERATING REVENUE	$ 8,046,760	100	$ 7,022,517	100
OPERATING COST	4,908,265	61	4,255,699	61
GROSS PROFIT	3,138,495	39	2,766,818	39
OPERATING EXPENSES				
Selling expenses	129,723	1	132,652	2
General and administrative expenses	324,258	4	312,143	5
Research and development expenses	2,087,744	26	1,845,137	26
Total operating expenses	2,541,725	31	2,289,932	33
PROFIT FROM OPERATIONS	596,770	8	476,886	6
NON-OPERATING INCOME AND LOSSES				
Share of profit of subsidiaries accounted for using equity method	7,332	-	5,986	-
Interest income	7,404	-	9,144	-
Dividend income	54,384	1	48,654	1
Other gains and losses	3,819	-	363	-
Gains on disposal of property, plant and equipment	445	-	899	-
Gains on disposal of investments	18,874	-	-	-
Foreign exchange gains (losses)	6,760	-	19,897	-
Losses on financial instruments at fair value through profit or loss	(4,730)	-	(11,176)	-
Interest expense	-	-	(1,344)	-
Total non-operating income and losses	94,288	1	72,423	1
PROFIT BEFORE INCOME TAX	691,058	9	549,309	7
INCOME TAX EXPENSE (Notes 4 and 18)	(77,893)	(1)	(80,287)	(1)
NET PROFIT	613,165	8	469,022	6

(Continued)

NUVOTON TECHNOLOGY CORPORATION

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

	2016		2015	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss				
Remeasurement of defined benefit plans (Notes 4 and 16)	$ (37,209)	(1)	$ (29,644)	-
Share of other comprehensive income of subsidiaries accounted for using equity method	3,164	-	-	-
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translation of foreign operations	(32,197)	-	17,419	-
Unrealized gains (losses) on available-for-sale financial assets	52,691	1	-	-
Share of comprehensive income of subsidiaries accounted for using equity method	30,657	-	-	-
Other comprehensive income (loss)	17,106	-	(12,225)	-
TOTAL COMPREHENSIVE INCOME	$ 630,271	8	$ 456,797	6
EARNINGS PER SHARE (Notes 4 and 20)				
From continuing operations				
Basic	$2.95		$2.26	
Diluted	$2.94		$2.24	

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

NUVOTON TECHNOLOGY CORPORATION

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

		Capital Surplus		Retained Earnings		Other Equity		
	Common Stock	Additional Paid-in Capital	Employee Share Options	Legal Reserve	Unappropriated Earnings	Exchange Differences on Translation of Foreign Operations	Unrealized Gain (loss) on Available-for-sale Financial Assets	Total Equity
BALANCE, JANUARY 1, 2015	$ 2,075,544	$ 63,485	$ 13	$ 259,319	$ 471,650	$ 44,058	$ -	$ 2,914,069
Net profit in 2015	-	-	-	-	469,022	-	-	469,022
Other comprehensive income (loss) in 2015	-	-	-	-	(29,644)	17,419	-	(12,225)
Total comprehensive income in 2015	-	-	-	-	439,378	17,419	-	456,797
Appropriation of 2014 earnings (Note 17)								
Legal reserve	-	-	-	34,309	(34,309)	-	-	-
Cash dividends	-	-	-	-	(249,065)	-	-	(249,065)
BALANCE, DECEMBER 31, 2015	2,075,544	63,485	13	293,628	627,654	61,477	-	3,121,801
Net profit in 2016	-	-	-	-	613,165	-	-	613,165
Other comprehensive income (loss) in 2016	-	-	-	-	(34,045)	(32,197)	83,348	17,106
Total comprehensive income (loss) in 2016	-	-	-	-	579,120	(32,197)	83,348	630,271
Appropriation of 2015 earnings (Note 17)								
Legal reserve	-	-	-	46,902	(46,902)	-	-	-
Cash dividends	-	-	-	-	(373,598)	-	-	(373,598)
BALANCE, DECEMBER 31, 2016	$ 2,075,544	$ 63,485	$ 13	$ 340,530	$ 786,274	$ 29,280	$ 83,348	$ 3,378,474

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

NUVOTON TECHNOLOGY CORPORATION

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

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	$ 691,058	$ 549,309
Adjustments for:		
Depreciation expenses	126,063	116,856
Amortization expenses	72,705	64,629
(Reversal of) provision for allowance for doubtful accounts	(1,316)	2,139
Interest expense	-	1,344
Interest income	(7,404)	(9,144)
Dividend income	(54,384)	(48,654)
Share of profit of subsidiaries accounted for using equity method	(7,332)	(5,986)
Unrealized gain or loss	6	796
Net (gain) loss on fair value change of financial assets and liabilities designated as at fair value through profit or loss	(672)	(4,262)
(Gain) loss on disposal of property, plant and equipment	(445)	(899)
(Gain) loss on disposal of investments	(18,874)	-
Changes in operating assets and liabilities		
(Increase) decrease in notes and accounts receivable	(122,821)	92,223
(Increase) decrease in accounts receivable due from related parties	(18,093)	(23,603)
(Increase) decrease in other receivables	(9,624)	21
(Increase) decrease in inventories	(143,754)	(241,649)
(Increase) decrease in other current assets	(130,771)	(5,950)
(Increase) decrease in other non-current assets	2,381	2,382
Increase (decrease) in accounts payable	239,652	127,024
Increase (decrease) in other payables	70,325	102,219
Increase (decrease) in other current liabilities	64,825	(12,905)
Increase (decrease) on products guarantee based on commitment	-	29,193
Increase (decrease) on accrued pension liabilities	(66,125)	(65,675)
Increase (decrease) in other non-current liabilities	(12)	106
Cash generated from (used in) operations	685,388	669,514
Income tax paid	(92,669)	(88,042)
Interest paid	-	(1,344)
Interest received	8,170	9,296
Dividend received	57,584	51,085
Net cash generated from (used in) operating activities	658,473	640,509
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for intangible assets	(110,645)	(21,269)
Proceeds from sale of financial assets measured at cost	8,243	-
Proceeds from capital reduction of financial assets measured at cost	5,000	10,000
Acquisition of investment accounted for using equity method	(798)	(83,718)
Net cash inflow from disposal of subsidiaries (Note 12)	49,850	-
Proceeds from capital reduction of investments accounted for using equity method	-	42,198
Payments for property, plant and equipment	(159,016)	(133,800)

(Continued)

NUVOTON TECHNOLOGY CORPORATION

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

	2016	2015
Proceeds from disposal of property, plant and equipment	$ 534	$ 928
(Increase) decrease in refundable deposits	(501)	(1,039)
Net cash generated from (used in) investing activities	(207,333)	(186,700)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends	(373,598)	(249,065)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	77,542	204,744
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,382,349	1,177,605
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,459,891	$ 1,382,349

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

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

1. GENERAL INFORMATION

Nuvoton Technology Corporation (the "Company") was incorporated in the Republic of China ("ROC") in April 2008 and commenced business in July 2008. The Company is engaged mainly in the researching, designing, developing, manufacturing, selling of Logic integrated circuits ("ICs") and the manufacturing, testing and OEM of 6-inch wafer.

For the specialization and division of labors and the reinforcement of core competitive ability, the Company's parent company, Winbond Electronics Corporation (WEC), spun off its Logic IC business into the Company on July 1, 2008 in accordance with the Business Mergers and Acquisitions Act and the Company commenced its business in July 2008. WEC held approximately 61% ownership interest in the Company as of December 31, 2016 and 2015.

The Company's shares have been listed on the Taiwan Stock Exchange since September 27, 2010.

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors and authorized for issue on February 3, 2017.

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

a. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) endorsed by the Financial Supervisory Commission (FSC) for application starting from 2017

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

New, Amended or Revised Standards and Interpretations (the "New IFRSs")	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 (Note 2)
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016 (Note 3)
Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"	January 1, 2016
Amendment to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"	January 1, 2016
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016

(Continued)

New, Amended or Revised Standards and Interpretations (the "New IFRSs")	Effective Date Announced by IASB (Note 1)
Amendment to IAS 1 "Disclosure Initiative"	January 1, 2016
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016
Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants"	January 1, 2016
Amendment to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendment to IAS 27 "Equity Method in Separate Financial Statements"	January 1, 2016
Amendment to IAS 36 "Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets"	January 1, 2014
Amendment to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
IFRIC 21 "Levies"	January 1, 2014

(Concluded)

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

Note 2: The amendment to IFRS 2 applies to share-based payment transactions with grant date on or after July 1, 2014; the amendment to IFRS 3 applies to business combinations with acquisition date on or after July 1, 2014; the amendment to IFRS 13 is effective immediately; the remaining amendments are effective for annual periods beginning on or after July 1, 2014.

Note 3: The amendment to IFRS 5 is applied prospectively to changes in a method of disposal that occur in annual periods beginning on or after January 1, 2016; the remaining amendments are effective for annual periods beginning on or after January 1, 2016.

The initial application in 2017 of the above IFRSs and related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers would not have any material impact on the Company's accounting policies, except for the following:

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

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

2) Annual Improvements to IFRSs: 2011-2013 Cycle

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

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

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

The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president, or is the spouse or second immediate family of the chairman of the board of directors or president of the Company are deemed to have a substantive related party relationship, unless it can be demonstrated that no control, joint control, or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationship with whom the Company has significant transaction. If the transaction or balance with a specific related party is 10% or more of the Company's respective total transaction or balance, such transaction should be separately disclosed by the name of each related party. The disclosures of related party transactions will be enhanced when the above amendments are retrospectively applied in 2017.

Except for the above impacts, as of the date the financial statements were authorized for issue, the Company is continuously assessing the possible impact that the application of the aforementioned amendments and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers will have on the Company's financial position and financial performance, and will disclose the relevant impacts when the assessment is completed.

b. New IFRSs in issue but not yet endorsed by the FSC

The Company has not applied the following IFRSs issued by the IASB but not yet endorsed by the FSC. 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 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 (Note 3)
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendments to IFRS 15 "Clarifications to IFRS 15 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.

Note 3: To avoid adoption of two amendments to IAS 28 in a short period, IASB decided to postpone the effective dates of the amendments to IFRS 10 and IAS 28 announced in September 2014. The effective dates of the amendments will be announced after the IASB has concluded its studies about the equity method.

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. Specifically, financial assets that are held within a business model whose objective is to collect contractual cash flows, and have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other financial assets are measured at their fair values at the end of reporting period.

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.

2) IFRS 15 "Revenue from Contracts with Customers" and related amendments

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations.When applying IFRS 15, the Company shall recognize revenue by applying the following steps:

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

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

3) IFRS 16 "Leases"

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

Under IFRS 16, if the Company is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the balance sheets except for low-value and short-term leases. The Company may elect to apply the accounting method similar to the accounting for operating lease under IAS 17 to the low-value and short-term leases. On the statements of comprehensive income, the Company 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 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 Company as lessor.

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

Basis of Preparation

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

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

Classification of Current and Non-current Assets and Liabilities

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

Foreign Currencies

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

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

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

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

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

Cash Equivalents

Cash equivalents consist of highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value.

Financial Instruments

a. Financial assets

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

   The categories of financial assets held by the Company are summarized as below:

   1) Loans and receivables

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

2) Financial assets at fair value through profit or loss

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

3) Available-for-sale financial assets

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

Available-for-sale financial assets are measured at fair value. Dividends on available-for-sale equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed of or is determined to be impaired.

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

b. Impairment of financial assets

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

The objective evidence of impairment for trade receivables could include the Company's past experience of collecting payments, the delayed payments in past period, the information which correlates with default on receivables, as well as the estimation of future cash flows. The amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

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

In respect of available-for-sale equity securities, increase in fair value subsequent to an impairment loss previously recognized in profit or loss is recognized in other comprehensive income. In respect of available-for-sale debt securities, the impairment loss is subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

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

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

c. Derecognition of financial assets

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

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

d. Financial liabilities

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

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

e. Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

f. Derivative financial instruments

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

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

Inventories

Inventories consist of raw materials, supplies, finished goods and work-in-process. The cost of raw materials and supplies are recognized using moving average method and finished goods and work-in-process are recorded at standard cost and adjusted to approximate weighted-average cost at the end of the reporting period. Inventories are stated at the lower of cost or net realizable value, and evaluated and recognized appropriate allowance for devaluation based on the amount of inventories and sales situation. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale.

Investments Accounted for Using Equity Method

Investment in subsidiaries

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

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

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

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

Property, Plant and Equipment

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

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

Depreciation is recognized using the straight-line method over the following estimated useful life after considering residual values：buildings 8-20 years, machinery and equipment 3-5 years and other equipment 5 years. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

Intangible Assets

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized using the straight-line method over the following estimated useful life of the assets: Deferred technical assets - economic life or contract period and other intangible assets 3-5 years. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period with the effect of any changes in estimate accounted for on a prospective basis.

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

Impairment of Tangible and Intangible Assets

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

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

When an impairment loss is subsequently reversed, the reversed carrying amount does not exceed the carrying amount (reduce amortization or depreciation) that would have been determined had no impairment loss been recognized on the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Products Guarantee Based on Commitment

The Company would estimate guarantee provision by the appropriate ratio when the related product sold.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Revenue from the sale of goods is recognized when all the following conditions are satisfied:

a. The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;

b. The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

c. The amount of revenue can be measured reliably;

d. It is probable that the economic benefits associated with the transaction will flow to the Company; and

e. The costs incurred or to be incurred in respect of the transaction can be measured reliably.

f. Service income is recognized when services are provided.

Leasing

The lease terms of the Company does not transfer substantially all the risks and rewards of ownership to the lessee. All the leases are classified as operating lease. Rental income from operating lease is recognized on a straight-line basis over the term of the relevant lease. As lessee, operating lease payments are recognized as an expense on a straight-line basis over the lease period. Under operating lease, contingent rents payable arising are recognized as an expense in the period in which they are incurred.

Employee Benefits

a. Short-term employee benefits

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

b. Retirement benefits

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

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

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

Taxation

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

a. Current tax

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

b. Deferred tax

   Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and it is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit.

   Deferred tax assets arising from deductible temporary differences associated with investments in subsidiaries are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

The Company's critical accounting judgments and key sources of estimation uncertainty are described below:

a. Valuation of inventory

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

b. Impairment of accounts receivable

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

6. CASH AND CASH EQUIVALENTS

	December 31	
	2016	**2015**
Cash and cash in bank	$ 1,332,591	$ 1,359,149
Repurchase agreements collateralized by bonds	127,300	23,200
	$ 1,459,891	$ 1,382,349

The Company has time deposits pledged to secure land lease and customs tariff obligation which are reclassified as "refundable deposits":

	December 31	
	2016	2015
Time deposits	$ 61,854	$ 61,398

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2016	2015
Financial liabilities at FVTPL - current		
Foreign exchange forward contracts	$ 707	$ 1,379

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

	Currencies	Maturity Date	Contract Amount (In Thousands)
December 31, 2016			
Sell forward exchange contracts	USD/NTD	2017.01.12-2017.01.26	USD5,000/NTD160,543
December 31, 2015			
Sell forward exchange contracts	USD/NTD	2016.01.05-2016.02.04	USD10,000/NTD326,871

The Company entered into forward exchange contracts to manage exposures to exchange rate fluctuations of foreign currency denominated assets and liabilities. The forward exchange contracts entered into by the Company did not meet the criteria for hedge accounting, therefore, the Company did not apply hedge accounting treatment for forward exchange contracts.

8. NOTES AND ACCOUNTS RECEIVABLE

	December 31	
	2016	2015
Notes receivable	$ 71	$ 14
Accounts receivable	483,051	360,287
Less: Allowance for doubtful accounts	(10,676)	(11,992)
	$ 472,446	$ 348,309

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

The aging of accounts receivable was as follows:

	December 31	
	2016	2015
Not overdue	$ 479,459	$ 357,619
Overdue under 30 days	3,663	2,682
Overdue 31-90 days	-	-
Overdue 91 days and longer	-	-
	$ 483,122	$ 360,301

The movements of the allowance for doubtful accounts were as follows:

	For the Year Ended December 31	
	2016	2015
Balance at January 1	$ 11,992	$ 9,853
Provision (reversed)	(1,316)	2,139
Balance at December 31	$ 10,676	$ 11,992

9. INVENTORIES

	December 31	
	2016	2015
Raw materials and supplies	$ 79,157	$ 74,558
Work-in-process	843,337	750,865
Finished goods	241,997	198,709
Inventories in transit	4,478	1,083
	$ 1,168,969	$ 1,025,215

a. As of December 31, 2016 and 2015, the allowance for inventory devaluation was $298,521 thousand and $322,784 thousand, respectively.

b. The cost of goods sold for the years ended December 31, 2016 and 2015 was $4,908,265 thousand and $4,255,699 thousand, respectively. The cost of goods sold included inventory write-downs and obsolescence and abandonment of inventories in the amounts of $29,014 thousand loss and $21,156 thousand loss for the years ended December 31, 2016 and 2015, respectively.

10. AVAILABLE-FOR-SALE FINANCIAL ASSETS - NON-CURRENT

	December 31	
	2016	2015
Publicly traded investment		
Nyquest Technology Co., Ltd. (Note 11)	$ 92,876	$ -

11. FINANCIAL ASSETS MEASURED AT COST, NON-CURRENT

	December 31	
	2016	2015
Non-publicly traded investment		
United Industrial Gases Co., Ltd.	$ 280,000	$ 280,000
Brightek Optoelectronic Co., Ltd.	493	493
Yu-Ji Venture Capital Co., Ltd.	25,000	30,000
Nyquest Technology Co., Ltd.	-	44,691
	$ 305,493	$ 355,184

Management believed that the above non-publicly traded investments held by the Company have fair value that cannot be reliably measured because the range of reasonable fair value estimates was so significant and various estimates cannot be reasonably estimated; therefore they were measured at cost less impairment at the end of reporting period.

In 2016, the Company sold part of its interest in Nyquest Technology Co., Ltd. with carrying amount of $4,506 thousand and recognized a disposal gain of $3,737 thousand. Nyquest Technology Co., Ltd.'s shares have been listed on the Taipei Exchange Market since May 9, 2016. The Company reclassified its investment from "Financial assets measured at cost" to "Available-for-sale financial assets" at its fair value at the date when shares were listed; please refer to Note 10.

12. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31	
	2016	2015
Investments in subsidiaries	$ 1,081,165	$ 1,109,330

	December 31			
	2016		2015	
	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Non-publicly traded companies				
Marketplace Management Ltd. ("MML")	$ 77,702	100	$ 82,680	100
Pigeon Creek Holding Co., Ltd. ("PCH")	178,786	100	177,861	100
Nuvoton Investment Holding Ltd. ("NIH")	297,902	100	290,441	100
Nuvoton Electronics Technology (H.K.) Limited ("NTHK")	441,890	100	460,482	100
Song Yong Investment Corporation ("SYI")	57,829	100	27,518	100
Techdesign Corporation ("Techdesign")	-	-	40,967	100
Nuvoton Technology India Private Ltd. ("NTIPL")	27,056	100	29,381	100
	$ 1,081,165		$ 1,109,330	

In 2016 and 2015, MML raised additional capital of $798 thousand and $3,507 thousand through issuance of shares for cash, which the Company bought entirely, respectively. In 2015, NIH reduced its capital and $42,198 thousand was returned to the Company.

In March 2015, Techdesign was incorporated by the Company and the authorized capital was $50,000 thousand. On May 18, 2016, the Company sold 100% of the shares of Techdesign to related party, WEC; accordingly, the Company lost its control. The selling price of the investments was $49,850 thousand and the Company received the total amount.

13. PROPERTY, PLANT AND EQUIPMENT

	December 31 2016	December 31 2015
Land and buildings	$ 67,289	$ 80,695
Machinery and equipment	324,347	267,509
Other equipment	47,583	52,694
Construction in progress and prepayments for purchase of equipment	35,733	9,341
	$ 474,952	$ 410,239

	Land and Buildings	Machinery and Equipment	Other Equipment	Construction in Progress and Prepayments for Purchase of Equipment	Total
Cost					
Balance at January 1, 2016	$ 3,464,808	$ 11,427,554	$ 168,278	$ 9,341	$ 15,069,981
Additions	7,094	142,485	10,495	30,791	190,865
Disposals	-	(112,279)	(10,002)	-	(122,281)
Reclassified	-	4,385	14	(4,399)	-
Balance at December 31, 2016	3,471,902	11,462,145	168,785	35,733	15,138,565
Accumulated depreciation and impairment					
Balance at January 1, 2016	3,384,113	11,160,045	115,584	-	14,659,742
Disposals	-	(112,191)	(10,001)	-	(122,192)
Depreciation expenses	20,500	89,944	15,619	-	126,063
Balance at December 31, 2016	3,404,613	11,137,798	121,202	-	14,663,613
Carrying amount at December 31, 2016	$ 67,289	$ 324,347	$ 47,583	$ 35,733	$ 474,952
Cost					
Balance at January 1, 2015	$ 3,455,473	$ 11,483,572	$ 158,215	$ 1,466	$ 15,098,726
Additions	12,434	104,408	12,621	9,341	138,804
Disposals	(3,141)	(161,668)	(2,740)	-	(167,549)
Reclassified	42	1,242	182	(1,466)	-
Balance at December 31, 2015	3,464,808	11,427,554	168,278	9,341	15,069,981
Accumulated depreciation and impairment					
Balance at January 1, 2015	3,369,222	11,237,993	103,191	-	14,710,406
Disposals	(3,141)	(161,668)	(2,711)	-	(167,520)
Depreciation expenses	18,032	83,720	15,104	-	116,856
Reclassified	-	-	-	-	-
Balance at December 31, 2015	3,384,113	11,160,045	115,584	-	14,659,742
Carrying amount at December 31, 2015	$ 80,695	$ 267,509	$ 52,694	$ 9,341	$ 410,239

14. INTANGIBLE ASSETS

	December 31	
	2016	2015
Deferred technical assets	$ 225,964	$ 197,238

	Deferred Technical Assets
Cost	
Balance at January 1, 2016	$ 764,924
Addition	101,431
Balance at December 31, 2016	866,355
Accumulated amortization and impairment	
Balance at January 1, 2016	567,686
Amortization expenses	72,705
Balance at December 31, 2016	640,391
Carrying amount at December 31, 2016	$ 225,964
Cost	
Balance at January 1, 2015	$ 755,331
Addition	9,593
Balance at December 31, 2015	764,924
Accumulated amortization and impairment	
Balance at January 1, 2015	503,057
Amortization expenses	64,629
Balance at December 31, 2015	567,686
Carrying amount at December 31, 2015	$ 197,238

15. OTHER PAYABLES

	December 31	
	2016	2015
Payable for salaries or employee benefits	$ 370,827	$ 335,748
Payable for businesses	155,062	142,104
Payable for subsidiaries service fees (Note 24)	110,814	99,150
Payable for purchase of equipment (Note 24)	75,579	43,730
Payable for royalties	70,671	67,136
Others	179,650	169,729
	$ 962,603	$ 857,597

16. RETIREMENT BENEFIT PLANS

a. Defined contribution plan

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

b. Defined benefit plan

The defined benefit plan adopted by the Company in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. In 2016 and 2015, the Company contributed amounts equal to 15%, of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Company has no right to influence the investment policy and strategy.

The amounts included in the balance sheets in respect of the Company's defined benefit plans were as follows:

	December 31	
	2016	2015
Present value of defined benefit obligation	$ 884,494	$ 854,733
Fair value of plan assets	(534,677)	(476,000)
Net defined benefit liability	$ 349,817	$ 378,733

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

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability (Asset)
Balance at January 1, 2015	$ 830,433	$ (415,669)	$ 414,764
Service cost			
Current service cost	9,802	-	9,802
Net interest expense (income)	18,324	(9,124)	9,200
Recognized in profit or loss	28,126	(9,124)	19,002
Remeasurement			
Actuarial (gain) loss - the discount rate more (less) than realized rate of return	-	(2,624)	(2,624)
Actuarial (gain) loss - changes in financial assumptions	32,084	-	32,084
Actuarial (gain) loss - experience adjustments	184	-	184
Recognized in other comprehensive income	32,268	(2,624)	29,644

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability (Asset)
Contributions from the employer	$ -	$ (84,677)	$ (84,677)
Plan assets paid	(36,094)	36,094	-
Balance at December 31, 2015	854,733	(476,000)	378,733
Service cost			
Current service cost	9,963	-	9,963
Net interest expense (income)	15,886	(9,495)	6,391
Recognized in profit or loss	25,849	(9,495)	16,354
Remeasurement			
Actuarial (gain) loss - the discount rate more (less) than realized rate of return	-	6,294	6,294
Actuarial (gain) loss - changes in financial assumptions	19,328	-	19,328
Actuarial (gain) loss - experience adjustments	11,587	-	11,587
Recognized in other comprehensive income	30,915	6,294	37,209
Contributions from the employer	-	(82,479)	(82,479)
Plan assets paid	(27,003)	27,003	-
Balance at December 31, 2016	$ 884,494	$ (534,677)	$ 349,817

(Concluded)

The amounts recognized in profit or loss in respect of these defined benefit plans were as follows:

	For the Year Ended December 31 2016	2015
Analysis by function		
Operating costs	$ 9,281	$ 10,700
Selling expenses	125	186
General and administrative expenses	1,420	1,626
Research and development expenses	5,528	6,490
	$ 16,354	$ 19,002

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

1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the debt investments of the plan assets.

3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

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

	December 31	
	2016	2015
Discount rate(s)	1.75%	1.90%
Expected rate(s) of salary increase	1%-2%	1%-2%

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

	December 31	
	2016	2015
Discount rate(s)		
0.25% increase	$ (21,476)	$ (23,097)
0.25% decrease	$ 22,277	$ 24,032
Expected rate(s) of salary increase		
0.25% increase	$ 22,242	$ 24,027
0.25% decrease	$ (21,546)	$ (23,203)

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

	December 31	
	2016	2015
The expected contributions to the plan for the next year	$ 90,000	$ 84,672
The average duration of the defined benefit obligation	10 years	11.2 years

17. EQUITY

a. Common stock

	December 31	
	2016	2015
Authorized shares (in thousands)	300,000	300,000
Authorized capital	$ 3,000,000	$ 3,000,000
Issued and paid shares (in thousands)	207,554	207,554
Issued capital	$ 2,075,544	$ 2,075,544
Par value (in New Taiwan dollars)	$ 10	$ 10

As of December 31, 2016 and 2015, the balance of the Company's capital account amounted to $2,075,544 thousand, divided into 207,554 thousand common shares at par NT$10 per share.

b. Capital surplus

	December 31	
	2016	2015
May be used to offset a deficit, distributed as cash dividends, or transferred to capital*		
Additional paid-in capital	$ 63,485	$ 63,485
May not be used for any purpose		
Employee share options	13	13
	$ 63,498	$ 63,498

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

c. Retained earnings and dividend policy

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The shareholders held their regular meeting on June 15, 2016 and, in that meeting, had resolved amendments to the Company's Articles of Incorporation (the "Articles"), particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees' compensation.

According to the revised Company Law of the ROC and the Company's Articles of Incorporation, if the Company has surplus earnings at the end of a fiscal year, after covering all losses incurred in prior years and paying all taxes, the Company shall set aside 10% of said earnings as legal reserve. However, legal reserve need not be made when the accumulated legal reserve equals the paid-in capital of the Company. After setting aside or reversing special reserve pursuant to applicable laws and regulations and orders of competent authorities from (1) the remaining amount plus undistributed retained earnings; or (2) the difference between the undistributed retained earnings and the losses suffered by the Company at the end of a fiscal year if the losses can be fully covered by the undistributed retained earnings, the Company shall distribute the remaining amount (if not otherwise set aside as special reserve and reserved based on business needs) and shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for bonus to shareholders. In principle, not less than 10% of the total shareholders bonus shall be distributed in form of cash. For the policies on distribution of employees' compensation and remuneration to directors and supervisors before and after amendment, please refer to Note 19 Employee benefits expense.

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

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

The appropriations of the Company's earnings for 2015 and 2014 had been approved in the shareholders' meetings on June 15, 2016 and June 10, 2015, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT$)	
	For Year 2015	For Year 2014	For Year 2015	For Year 2014
Legal reserve	$ 46,902	$ 34,309		
Cash dividends	373,598	249,065	$ 1.80	$ 1.20
	$ 420,500	$ 283,374		

The appropriations of the Company's earnings for 2016 had been approved in the Board of Directors' meeting on February 3, 2017. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT$)
Legal reserve	$ 61,316	
Cash dividends	498,131	$ 2.40

The appropriations of earnings for 2016 will be presented for approval in the shareholders' meeting to be held on June 14, 2017 (expected).

d. Other equity items

1) The exchange differences arising on translation of foreign operations' net assets from its functional currency to the Company's presentation currency (New Taiwan dollar) are recognized directly in other comprehensive income. As of December 31, 2016 and 2015, other comprehensive income or loss was $32,197 thousand loss and $17,419 thousand gain, respectively.

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

	For the Year Ended December 31	
	2016	2015
Balance at January 1	$ -	$ -
Unrealized gain (loss) on revaluation of available-for-sale financial assets	52,691	-
Share of unrealized gain (loss) on revaluation of available-for-sale financial assets of subsidiaries accounted for using the equity method	30,657	-
Balance at December 31	$ 83,348	$ -

Unrealized gain (loss) on available-for-sale financial assets represents the cumulative gains or losses arising from the fair value measurement on available-for-sale financial assets that are recognized in other comprehensive income. When those available-for-sale financial assets have been disposed of or are determined to be impaired subsequently, the related cumulative gains or losses in other comprehensive income are reclassified to profit or loss.

18. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Income tax recognized in profit or loss

The major components of income tax expense were as follows:

	For the Year Ended December 31	
	2016	2015
Current income tax	$ 89,000	$ 67,000
Adjustments for prior year's tax	(1,107)	(6,713)
Deferred tax	(10,000)	20,000
Income tax expense recognized in profit or loss	$ 77,893	$ 80,287

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

	For the Year Ended December 31	
	2016	2015
Profit before tax from continuing operations	$ 117,000	$ 93,000
Adjustments		
Permanent differences	(20,000)	(15,000)
Tax-exempt income	(8,000)	(11,000)
Additional income tax on unappropriated earnings	1,888	5,358
Current income tax credit	(1,888)	(5,358)
Current income tax	89,000	67,000
Deferred income tax	(10,000)	20,000
Adjustment for prior years' tax	(1,107)	(6,713)
Income tax expense recognized in profit or loss	$ 77,893	$ 80,287

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

As the status of 2016 appropriations of earnings was not yet approved in the shareholders' meeting, the potential income tax consequences of 2016 unappropriated earnings were not reliably determinable.

c. Current tax liabilities

	December 31	
	2016	2015
Income tax payable	$ 16,109	$ 52,885

d. Deferred income tax assets

	December 31	
	2016	2015
Deferred income tax assets		
Unrealized investment loss	$ -	$ 33,000
Allowance for loss on inventories and others	72,000	61,000
	$ 72,000	$ 94,000

e. Information about unused tax-exemption

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

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

f. The information on the Company's integrated income tax was as follows:

	December 31	
	2016	2015
Unappropriated earnings		
Generated on and after January 1, 1998	$ 786,274	$ 627,654
Imputation credits account	$ 113,443	$ 148,632

The creditable ratio for distribution of earnings for the years ended December 31, 2016 and 2015 was 14.43% (estimate) and 24.50%, respectively.

g. Income tax assessments

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

19. EMPLOYEE BENEFITS EXPENSE, DEPRECIATION, AND AMORTIZATION

	For the Year Ended December 31					
	2016			2015		
	Classified as Operating Costs	Classified as Operating Expenses	Total	Classified as Operating Costs	Classified as Operating Expenses	Total
Employee benefits expense						
Short-term employment benefits	$ 696,544	$ 947,469	$ 1,644,013	$ 696,071	$ 851,838	$ 1,547,909
Post-employment benefits	33,105	42,854	75,959	34,574	40,157	74,731
Depreciation	98,833	27,230	126,063	92,171	24,685	116,856
Amortization	33,293	39,412	72,705	33,290	31,339	64,629

To be in compliance with the Company Act, as amended in May 2015, and the amended Articles of Incorporation of the Company approved by the shareholders in their meeting on June 15, 2016, the Company stipulated to distribute employees' compensation and remuneration to directors at the rates no less than 1% and no higher than 1%, respectively, of profit before income tax, employees' compensation, and remuneration to directors.

The employees' compensation and remuneration to directors and supervisors for 2016 and 2015 which have been approved in the Board of Directors' meetings on February 3, 2017 and January 28, 2016, respectively, were as follows:

	For the Year Ended December 31			
	2016		2015	
	Amount	%	Amount	%
Employees' cash compensation	$ 44,584	6	$ 35,439	6
Remuneration of directors and supervisors	7,431	1	5,906	1

If there is a change in the proposed amounts after the annual financial statements were authorized for issue, the differences are recorded as a change in accounting estimate. There was no difference between the actual amounts of employees' compensation and remuneration to directors and supervisors paid and the amounts recognized in the financial statements for the year ended December 31, 2015.

For the year ended December 31, 2014, the bonus to employees and remuneration to directors and supervisors were $37,360 thousand and $4,981 thousand, respectively. There was no difference between the amounts of the bonus to employees and the remuneration to directors and supervisors approved in the shareholders' meeting on June 10, 2015 and the amounts recognized in the financial statements for the year ended December 31, 2014.

Information on the employees' compensation and remuneration to directors and supervisors resolved by the Company's Board of Directors in 2017 and 2016, and the bonus to employees and remuneration to directors and supervisors resolved by the shareholders in their meeting in 2015 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

20. EARNINGS PER SHARE

The numerators and denominators used in calculating basic and diluted earnings per share ("EPS") were as follows:

	Amounts (Numerator)	Shares (Denominator) (In Thousands)	EPS (NT$)
For the year ended December 31, 2016			
Net profit	$ 613,165		
Basic EPS			
Earnings used in the computation of basic EPS	613,165	207,554	$ 2.95
Effect of potentially dilutive ordinary shares			
Employee's compensation	-	1,152	
Diluted EPS			
Earnings used in the computation of diluted EPS	$ 613,165	208,706	2.94
For the year ended December 31, 2015			
Net profit	$ 469,022		

(Continued)

	Amounts (Numerator)	Shares (Denominator) (In Thousands)	EPS (NT$)
Basic EPS			
Earnings used in the computation of basic EPS	$ 469,022	$ 207,554	$ 2.26
Effect of potentially dilutive ordinary shares			
Employee's compensation or bonus	-	1,748	
Diluted EPS			
Earnings used in the computation of diluted EPS	$ 469,022	209,302	2.24

(Concluded)

If the Company offered to settle compensation or bonus paid to employees in cash or shares, the Company assumed the entire amount of the compensation or bonus would be settled in shares and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. The number of shares used in the computation of diluted EPS is estimated by the amount of compensation or bonus divided by the closing price of the potential common shares at the end of the reporting period. Such dilutive effect of the potential shares was included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

21. OPERATING LEASE ARRANGEMENTS

The Company as Lessee

a. Lease arrangements

The Company leased land from Science Park Administration, and the lease term will expire in December 2017, but can be extended after the expiration of the lease period.

The Company leased a land from Taiwan Sugar Corporation under a twenty-year term from October 2014 to September 2034, which is allowed to extend upon the expiration of lease. The chairman of the Company is a joint guarantor of such lease; please refer to Note 24.

The Company leased some of the offices, and the lease terms will expire between 2015 and 2022, but can be extended after the expiration of the lease periods.

As of December 31, 2016 and 2015, deposits paid under operating leases amounted to $30,899 thousand and $30,803 thousand, respectively.

b. Prepayments for lease obligations

	December 31 2016	December 31 2015
Current (recorded as "other current assets")	$ 4,112	$ 3,140
Non-current (recorded as "other non-current assets")	39,892	42,273
	$ 44,004	$ 45,413

Prepaid lease payments include Taiwan Sugar Corporation's land use right, which is located in Tainan.

c. Lease expense

	For the Year Ended December 31	
	2016	2015
Lease expenditure	$ 37,078	$ 37,256

22. CAPITAL MANAGEMENT

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

23. FINANCIAL INSTRUMENT

a. Categories of financial instruments

	December 31			
	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Loans and receivables				
Cash and cash equivalents	$ 1,459,891	$ 1,459,891	$ 1,382,349	$ 1,382,349
Notes and accounts receivable	472,446	472,446	348,309	348,309
Accounts receivable due from related parties	140,763	140,763	122,670	122,670
Other receivables	2,543	2,543	3,344	3,344
Refundable deposits	64,881	64,881	64,380	64,380
Available-for-sale financial assets	92,876	92,876	-	-
Financial assets measured at cost	305,493	305,267	355,184	354,949
Financial liabilities				
Measured at amortized cost				
Accounts payable	904,486	904,486	664,834	664,834
Other payables	960,162	960,162	855,420	855,420
Guarantee deposits (recorded in other non-current liabilities)	1,850	1,850	1,862	1,862
Long-term contract payable (recorded in other non-current liabilities)	22,868	22,868	34,914	32,790
Financial liabilities at fair value through profit or loss				
Derivative financial instruments	707	707	1,379	1,379

b. Fair value information

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

   a) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

   b) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

   c) Level 3 inputs are unobservable inputs for the asset or liability.

2) Fair value measurements recognized in the balance sheets

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

   b) The fair value of the financial instruments at fair value through profit or loss is based on Level 2 inputs, either directly or indirectly. The fair value of foreign-currency derivative financial instrument could be determined by reference to the price and discount rate of currency swap quoted by financial institutions. Foreign exchange forward contracts use individual maturity rate to calculate the fair value of each contract.

   c) The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

3) Financial instruments that are not measured at fair value

   Management believes the carrying amounts of financial assets and financial liabilities that are not measured at fair value recognized in the financial statements approximate their fair values.

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

	December 31, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Available-for-sale financial assets				
Domestic listed equity securities	$ 92,876	$ -	$ -	$ 92,876
Financial liabilities at FVTPL				
Derivatives	$ -	$ 707	$ -	$ 707

	December 31, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial liabilities at FVTPL				
Derivatives	$ -	$ 1,379	$ -	$ 1,379

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

	December 31, 2016				
	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial assets measured at cost					
Domestic emerging equity securities	$ 493	$ -	$ 267	$ -	$ 267

	December 31, 2015				
	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial assets measured at cost					
Domestic emerging equity securities	$ 493	$ -	$ 258	$ -	$ 258

There were no transfers among the different Levels in 2016 and 2015.

c. Financial risk management objectives and policies

The Company sought to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives was governed by the Company's policies approved by the Board of Directors, which provide written principles on foreign exchange risk, and use of financial derivatives. Compliance with policies and exposure limits was reviewed by the internal auditors on a continuous basis.

1) Market risk

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

a) Foreign currency risk

The Company is engaged in foreign currency transaction and thus it is exposed to the risk of changes in foreign currency exchange rates. The Company uses forward foreign exchange contracts to hedge the exchange rate risk within approved policy parameters utilizing forward foreign exchange contracts.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are set out in Note 27.

The sensitivity analysis included only outstanding foreign currency denominated monetary items at the end of the reporting period and assuming an increase in net income and equity if New Taiwan dollars strengthen by 1% against foreign currencies. For a 1% weakening of New Taiwan dollars against the relevant currency, there would be impact on net income in the amounts of $494 thousand and $1,673 thousand decrease for the years ended December 31, 2016 and 2015, respectively. The amounts included above for a 1% weakening of New Taiwan dollars against the relevant currency is without considering the impact of hedge contracts and hedged item.

b) Interest rate risk

Interest rate risk refers to the risk that the change in market value will influence the fair value of financial instruments. The Company's interest rate risk arises primarily from floating rate deposits.

As of December 31, 2016 and 2015, the carrying amount of the Company's floating rate deposits with exposure to interest rates was $5,572 thousand and $5,521 thousand, respectively.

The sensitivity analyses below were determined based on the Company's exposure to interest rates for fair value of variable-rate derivative instruments at the end of the reporting period. If interest rates had been higher by one percentage point, the Company's cash flows for the years ended December 31, 2016 and 2015 would have increased by $56 thousand and $55 thousand, respectively.

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. In this regard, the management of the Company consider that the Company's credit risk was significantly reduced.

3) Liquidity risk

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

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

	December 31, 2016			
	Within 1 Year	1-2 Years	Over 2 Years	Total
Non-derivative financial liabilities				
Non-interest bearing	$ 1,864,648	$ 11,434	$ 11,434	$ 1,887,516

	December 31, 2015			
	Within 1 Year	1-2 Years	Over 2 Years	Total
Non-derivative financial liabilities				
Non-interest bearing	$ 1,520,254	$ 11,127	$ 21,663	$ 1,553,044

24. RELATED PARTY TRANSACTIONS

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

Related Party	Relationship with the Company
Winbond Electronics Corporation ("WEC")	Parent company
Nuvoton Electronics Technology (H.K.) Limited ("NTHK")	Subsidiary
Nuvoton Electronics Technology (Shenzhen) Limited ("NTSZ")	Subsidiary
Nuvoton Technology Corporation America ("NTCA")	Subsidiary
Nuvoton Technology Israel Ltd. ("NTIL")	Subsidiary
Song Yong Investment Corporation ("SYI")	Subsidiary
Techdesign Corporation ("Techdesign")	Associate (Note)
Winbond Electronics Corporation Japan ("WECJ")	Associate
Nyquest Technology Co., Ltd. ("Nyquest")	Related party in substance
Walton Advanced Engineering Inc.	Related party in substance
Chin Cherng Construction Co., Ltd.	Related party in substance

Note: On May 18, 2016, the Company sold 100% of the shares of Techdesign to related party, WEC.

b. Operating activities

	For the Year Ended December 31	
	2016	2015
1) Operating revenue		
Subsidiary	$ 3,283,976	$ 3,005,168
Related party in substance	243,022	214,017
Associate	76,280	90,300
	$ 3,603,278	$ 3,309,485
2) Purchase		
Parent company	$ 144,876	$ 131,520
3) General and administrative expenses		
Subsidiary	$ 69,941	$ 60,529
Related party in substance	10,331	10,331
Parent company	110	1,715
	$ 80,382	$ 72,575
4) Research and development expenses		
Subsidiary	$ 805,849	$ 725,352
Parent company	69	74
	$ 805,918	$ 725,426
5) Other income		
Related party in substance	$ 5,105	$ 7,168

	December 31	
	2016	2015
6) Accounts receivable due from related parties		
Subsidiary	$ 83,700	$ 66,278
Related party in substance	42,340	42,476
Associate	14,723	13,916
	$ 140,763	$ 122,670
7) Other receivables		
Associate	$ 96	$ -
Subsidiary	-	788
	$ 96	$ 788
8) Refundable deposits		
Related party in substance	$ 1,722	$ 1,722
9) Accounts payable to related parties		
Parent company	$ 27,149	$ 19,882
10) Other payables		
Subsidiary	$ 110,814	$ 99,150
Parent company	11,006	-
	$ 121,820	$ 99,150
11) Guarantee deposits		
Parent company	$ 545	$ 545
Associate	151	-
Subsidiary	-	151
	$ 696	$ 696

Sales and purchase of goods with related party were conducted under normal prices and terms. The trading conditions of other related party transactions were resolved between the Company and related party.

13) Payments for property, plant and equipment

	For the Year Ended December 31	
	2016	2015
Parent company	$ 10,722	$ -

14) Guarantee

As of December 31, 2016, the chairman of the Company is a joint guarantor of the land-lease from Taiwan Sugar Corporation. Please refer to Note 21.

15) Other related party transactions

On May 18, 2016, the Company sold 100% of the shares of subsidiary, Techdesign Corporation, to related party, WEC, and the selling price of the investments was $49,850 thousand; please refer to Note 12 and Note 24 of the consolidated financial statements for the year ended December 31, 2016.

16) Compensation of key management personnel

	For the Year Ended December 31	
	2016	2015
Short-term employment benefits	$ 38,560	$ 30,746
Post-employment benefits	1,370	495
	$ 39,930	$ 31,241

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

25. PLEDGED AND COLLATERALIZED ASSETS

Please refer to Note 6.

26. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

As of December 31, 2016 amounts available under unused letters of credit were approximately US$354 thousand.

27. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

	December 31					
	2016			2015		
	Foreign Currencies (Thousand)	Exchange Rate	New Taiwan Dollars (Thousand)	Foreign Currencies (Thousand)	Exchange Rate	New Taiwan Dollars (Thousand)
Financial assets						
Monetary items						
USD	$ 22,836	32.25	$ 736,447	$ 21,393	32.825	$ 702,232
RMB	2,169	4.617	10,014	1,576	4.995	7,870
ILS	12,940	8.3882	108,542	11,950	8.4085	100,480
Investments accounted for using equity method						
USD	13,775	32.25	444,249	14,100	32.825	462,836
INR	56,959	0.4750	27,056	59,236	0.496	29,381

(Continued)

	December 31					
	2016			2015		
	Foreign Currencies (Thousand)	Exchange Rate	New Taiwan Dollars (Thousand)	Foreign Currencies (Thousand)	Exchange Rate	New Taiwan Dollars (Thousand)
Financial liabilities						
Monetary items						
USD	21,505	32.25	693,535	16,504	32.825	541,738
ILS	12,902	8.3882	108,226	11,792	8.4085	99,150

(Concluded)

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

	For the Year Ended December 31			
	2016		2015	
Foreign Currencies	Exchange Rate	Net Foreign Exchange Gain (Loss)	Exchange Rate	Net Foreign Exchange Gain (Loss)
USD	32.26 (USD:NTD)	$ 7,868	31.74 (USD:NTD)	$ 19,988
RMB	4.8457 (RMB:NTD)	(455)	5.0334 (RMB:NTD)	(154)
ILS	8.4015 (ILS:NTD)	(694)	8.1679 (ILS:NTD)	(334)
		$ 6,719		$ 19,500

28. OPERATING SEGMENTS INFORMATION

The Company has provided the operating segments disclosure in the consolidated financial statements; therefore, the Company does not provided relevant information in these financial statements.