

Nuvoton Technology Corporation and Subsidiaries

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

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Nuvoton Technology Corporation

Opinion

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

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

Basis for Opinion

We conducted our 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 Consolidated Financial Statements section of our report. We are independent of the Group in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Key audit matters of the Group's consolidated 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 Group's notes and accounts receivable was \$769,488 thousand (net of the allowance for doubtful accounts of \$16,743 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 Group's inventories was \$1,178,437 thousand (net of inventory write-down of \$301,837 thousand); please refer to Notes 5 and 10. 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 Group.
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.

Other Matter

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

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



Deloitte & Touche
Taipei, Taiwan
Republic of China

February 3, 2017

Notice to Readers

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

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

NUVOTON TECHNOLOGY CORPORATION AND SUBSIDIARIES

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

| ASSETS | 2016 | | 2015 | |
|---|---------------------|------------|---------------------|------------|
| | Amount | % | Amount | % |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Notes 4 and 6) | \$ 1,898,827 | 32 | \$ 1,825,672 | 34 |
| Notes and accounts receivable, net (Notes 4 and 8) | 769,488 | 13 | 643,816 | 12 |
| Accounts receivable due from related parties, net (Notes 4 and 28) | 57,063 | 1 | 56,392 | 1 |
| Other receivables (Note 9) | 256,603 | 4 | 240,227 | 5 |
| Inventories (Notes 4 and 10) | 1,178,437 | 20 | 1,037,432 | 20 |
| Other current assets (Note 25) | 222,881 | 4 | 91,128 | 2 |
| Total current assets | <u>4,383,299</u> | <u>74</u> | <u>3,894,667</u> | <u>74</u> |
| NON-CURRENT ASSETS | | | | |
| Available-for-sale financial assets, non-current (Notes 4 and 11) | 146,913 | 3 | - | - |
| Financial assets measured at cost, non-current (Notes 4 and 12) | 305,493 | 5 | 378,564 | 7 |
| Property, plant and equipment (Notes 4 and 13) | 526,167 | 9 | 463,594 | 9 |
| Investment properties (Notes 4 and 14) | 61,673 | 1 | 71,866 | 1 |
| Intangible assets (Notes 4 and 15) | 257,940 | 4 | 242,622 | 5 |
| Deferred income tax assets (Notes 4 and 21) | 104,627 | 2 | 127,287 | 2 |
| Refundable deposits (Note 6) | 70,671 | 1 | 69,370 | 1 |
| Other non-current assets (Note 25) | 41,498 | 1 | 43,878 | 1 |
| Total non-current assets | <u>1,514,982</u> | <u>26</u> | <u>1,397,181</u> | <u>26</u> |
| TOTAL | <u>\$ 5,898,281</u> | <u>100</u> | <u>\$ 5,291,848</u> | <u>100</u> |
| LIABILITIES AND EQUITY | | | | |
| CURRENT LIABILITIES | | | | |
| Financial liabilities at fair value through profit or loss, current (Notes 4 and 7) | \$ 707 | - | \$ 1,379 | - |
| Accounts payable | 906,542 | 15 | 666,073 | 13 |
| Other payables (Notes 16 and 28) | 917,461 | 16 | 816,083 | 15 |
| Current tax liabilities (Notes 4 and 21) | 16,558 | - | 53,834 | 1 |
| Other current liabilities | 108,513 | 2 | 43,014 | 1 |
| Total current liabilities | <u>1,949,781</u> | <u>33</u> | <u>1,580,383</u> | <u>30</u> |
| NON-CURRENT LIABILITIES | | | | |
| Products guarantee based on commitment (Notes 4 and 17) | 101,891 | 2 | 101,891 | 2 |
| Accrued pension liabilities (Notes 4 and 18) | 352,038 | 6 | 378,733 | 7 |
| Other non-current liabilities | 116,097 | 2 | 109,040 | 2 |
| Total non-current liabilities | <u>570,026</u> | <u>10</u> | <u>589,664</u> | <u>11</u> |
| Total liabilities | <u>2,519,807</u> | <u>43</u> | <u>2,170,047</u> | <u>41</u> |
| EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT | | | | |
| Common stock (Note 19) | 2,075,544 | 35 | 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 | <u>3,378,474</u> | <u>57</u> | <u>3,121,801</u> | <u>59</u> |
| TOTAL | <u>\$ 5,898,281</u> | <u>100</u> | <u>\$ 5,291,848</u> | <u>100</u> |

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

NUVOTON TECHNOLOGY CORPORATION AND SUBSIDIARIES

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

| | 2016 | | 2015 | |
|--|------------------|------------|------------------|------------|
| | Amount | % | Amount | % |
| OPERATING REVENUE (Note 20) | \$ 8,329,286 | 100 | \$ 7,313,387 | 100 |
| OPERATING COST | <u>4,920,966</u> | <u>59</u> | <u>4,263,860</u> | <u>58</u> |
| GROSS PROFIT | <u>3,408,320</u> | <u>41</u> | <u>3,049,527</u> | <u>42</u> |
| OPERATING EXPENSES | | | | |
| Selling expenses | 232,213 | 3 | 246,434 | 3 |
| General and administrative expenses | 355,741 | 4 | 346,482 | 5 |
| Research and development expenses | <u>2,215,524</u> | <u>26</u> | <u>1,970,357</u> | <u>27</u> |
| Total operating expenses | <u>2,803,478</u> | <u>33</u> | <u>2,563,273</u> | <u>35</u> |
| PROFIT FROM OPERATIONS | <u>604,842</u> | <u>8</u> | <u>486,254</u> | <u>7</u> |
| NON-OPERATING INCOME AND LOSSES | | | | |
| Interest income | 16,135 | - | 16,656 | - |
| Dividend income | 57,354 | 1 | 52,284 | 1 |
| Other gains and losses | 9,926 | - | 6,568 | - |
| (Losses) gains on disposal of property, plant and equipment | (34) | - | 891 | - |
| Gains on disposal of investments | 18,874 | - | - | - |
| Foreign exchange gains (losses) | 6,583 | - | 21,852 | - |
| Losses on financial instruments at fair value through profit or loss | (4,730) | - | (11,176) | - |
| Interest expense | <u>-</u> | <u>-</u> | <u>(1,344)</u> | <u>-</u> |
| Total non-operating income and losses | <u>104,108</u> | <u>1</u> | <u>85,731</u> | <u>1</u> |
| PROFIT BEFORE INCOME TAX | 708,950 | 9 | 571,985 | 8 |
| INCOME TAX EXPENSE (Notes 4 and 21) | <u>(95,785)</u> | <u>(1)</u> | <u>(102,963)</u> | <u>(2)</u> |
| NET PROFIT | <u>613,165</u> | <u>8</u> | <u>469,022</u> | <u>6</u> |

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NUVOTON TECHNOLOGY CORPORATION AND SUBSIDIARIES

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

| | 2016 | | 2015 | |
|--|-------------------|----------|-------------------|----------|
| | Amount | % | Amount | % |
| OTHER COMPREHENSIVE INCOME | | | | |
| Items that will not be reclassified subsequently to profit or loss | | | | |
| Remeasurement of defined benefit plans (Notes 4 and 18) | \$ (34,045) | (1) | \$ (29,644) | - |
| 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 | <u>83,348</u> | <u>1</u> | <u>-</u> | <u>-</u> |
| Other comprehensive income (loss) | <u>17,106</u> | <u>-</u> | <u>(12,225)</u> | <u>-</u> |
| TOTAL COMPREHENSIVE INCOME | <u>\$ 630,271</u> | <u>8</u> | <u>\$ 456,797</u> | <u>6</u> |
| EARNINGS PER SHARE (Notes 4 and 23) | | | | |
| From continuing operations | | | | |
| Basic | <u>\$ 2.95</u> | | <u>\$ 2.26</u> | |
| Diluted | <u>\$ 2.94</u> | | <u>\$ 2.24</u> | |

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

(Concluded)

NUVOTON TECHNOLOGY CORPORATION AND SUBSIDIARIES

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

| | Equity Attributable to Owners of the Parent | | | | | Other Equity | | | Total Equity |
|---|---|----------------------------|------------------------|-------------------|-------------------------|---|---|--------------|--------------|
| | Common Stock | Capital Surplus | | Retained Earnings | | Exchange Differences on Translation of Foreign Operations | Unrealized Gain (Loss) on Available-for-sale Financial Assets | | |
| | | Additional Paid-in Capital | Employee Share Options | Legal Reserve | Unappropriated Earnings | | | | |
| 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 in 2015 | - | - | - | - | (29,644) | 17,419 | - | (12,225) | |
| Total comprehensive income in 2015 | - | - | - | - | 439,378 | 17,419 | - | 456,797 | |
| Appropriation of 2014 earnings (Note 19) | - | - | - | 34,309 | (34,309) | - | - | - | |
| Legal reserve | - | - | - | - | (249,065) | - | - | (249,065) | |
| Cash dividends | - | - | - | - | - | - | - | - | |
| 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 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 19) | - | - | - | 46,902 | (46,902) | - | - | - | |
| Legal reserve | - | - | - | - | (373,598) | - | - | (373,598) | |
| Cash dividends | - | - | - | - | - | - | - | - | |
| 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 consolidated financial statements.

NUVOTON TECHNOLOGY CORPORATION AND SUBSIDIARIES

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

| | 2016 | 2015 |
|---|------------|------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Profit before income tax | \$ 708,950 | \$ 571,985 |
| Adjustments for: | | |
| Depreciation expenses | 148,754 | 140,602 |
| Amortization expenses | 86,704 | 79,535 |
| (Reversal of) provision for allowance for doubtful accounts | (1,174) | 2,875 |
| Interest expense | - | 1,344 |
| Interest income | (16,135) | (16,656) |
| Dividend income | (57,354) | (52,284) |
| 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 | 34 | (891) |
| (Gain) loss on disposal of investments | (18,874) | - |
| Changes in operating assets and liabilities | | |
| (Increase) decrease in notes and accounts receivable | (124,408) | 38,316 |
| (Increase) decrease in accounts receivable due from related parties | (671) | (8,061) |
| (Increase) decrease in other receivables | (19,470) | (188,827) |
| (Increase) decrease in inventories | (141,005) | (243,503) |
| (Increase) decrease in other current assets | (132,003) | (4,515) |
| (Increase) decrease in other non-current assets | 2,245 | 1,782 |
| Increase (decrease) in accounts payable | 240,469 | 126,029 |
| Increase (decrease) in other payables | 67,603 | 86,154 |
| Increase (decrease) in other current liabilities | 65,627 | 4,787 |
| Increase (decrease) on products guarantee based on commitment | - | 29,193 |
| Increase (decrease) on accrued pension liabilities | (62,742) | (65,675) |
| Increase (decrease) in other non-current liabilities | 21,105 | 8,253 |
| Cash generated from (used in) operations | 766,983 | 506,181 |
| Income tax paid | (102,664) | (110,505) |
| Interest paid | - | (1,344) |
| Interest received | 11,477 | 16,586 |
| Dividend received | 57,354 | 52,284 |
| Net cash generated from operating activities | 733,150 | 463,202 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Payments for intangible assets | (111,444) | (22,262) |
| 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 |
| Net cash inflow from disposal of subsidiaries (Note 24) | 14,702 | - |
| Payments for property, plant and equipment | (176,189) | (146,071) |
| Proceeds from disposal of property, plant and equipment | 539 | 936 |
| (Increase) decrease in refundable deposits | (1,452) | (1,158) |
| Net cash used in investing activities | (260,601) | (158,555) |

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NUVOTON TECHNOLOGY CORPORATION AND SUBSIDIARIES

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

| | 2016 | 2015 |
|---|---------------------|---------------------|
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Cash dividends | \$ (373,598) | \$ (249,065) |
| EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES | <u>(25,796)</u> | <u>16,972</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 73,155 | 72,554 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>1,825,672</u> | <u>1,753,118</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 1,898,827</u> | <u>\$ 1,825,672</u> |

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

(Concluded)

NUVOTON TECHNOLOGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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

1. GENERAL INFORMATION

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 consolidated 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 Group should apply the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS, IAS, IFRIC and SIC (collectively, the “IFRSs”) issued by the 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 |
| Amendment to IAS 1 “Disclosure Initiative” | January 1, 2016 |

(Continued)

| New, Amended or Revised Standards and Interpretations (the “New IFRSs”) | Effective Date Announced by IASB (Note 1) |
|--|--|
| 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 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 Group’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 a group 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 Group 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 Group are deemed to have a substantive related party relationship, unless it can be demonstrated that no control, joint control, or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationship with whom the Group has significant transaction. If the transaction or balance with a specific related party is 10% or more of the Group's respective total transaction or balance, such transaction should be separately disclosed by the name of each related party. 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 consolidated financial statements were authorized for issue, the Group 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 Group'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 Group 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 consolidated financial statements were authorized for issue, the FSC has not announced the effective dates of other new IFRSs.

| New IFRSs | Effective Date Announced by IASB (Note 1) |
|--|--|
| Annual Improvements to IFRSs 2014-2016 Cycle | Note 2 |
| Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions" | January 1, 2018 |
| Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" | January 1, 2018 |
| IFRS 9 "Financial Instruments" | January 1, 2018 |
| Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures" | January 1, 2018 |
| Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" | To be determined by IASB (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 amendment

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

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

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

3) IFRS 16 “Leases”

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

Under IFRS 16, if the Group is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for low-value and short-term leases. The Group may elect to apply the accounting method similar to the accounting for operating lease under IAS 17 to the low-value and short-term leases. On the consolidated statements of comprehensive income, the Group should present the depreciation expense charged on the right-of-use asset separately from interest expense accrued on the lease liability; interest is computed by using effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of the lease liability are classified within financing activities; cash payments for interest portion are classified within operating activities. The application of IFRS 16 is not expected to have a material impact on the accounting of the Group as lessor.

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed by the FSC.

Basis of Preparation

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

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company. All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation.

Subsidiary included in consolidated financial statements:

| Investor | Investee | Main Business | % of Ownership | |
|-------------|--|--|----------------|------|
| | | | December 31 | |
| | | | 2016 | 2015 |
| The Company | Nuvoton Electronics Technology (H.K.) Limited ("NTHK") | Sales of semiconductor | 100 | 100 |
| | Pigeon Creek Holding Co., Ltd. ("PCH") | Investment holding | 100 | 100 |
| | Marketplace Management Limited ("MML") | Investment holding | 100 | 100 |
| | Nuvoton Investment Holding Ltd. ("NIH") | Investment holding | 100 | 100 |
| | Song Yong Investment Corporation ("SYI") | Investment holding | 100 | 100 |
| | Nuvoton Technology India Private Limited ("NTIPL") | Design, sales and after-sales service of semiconductor | 100 | 100 |
| | Techdesign Corporation (Note) | Electronic commerce and product marketing | - | 100 |
| NTHK | Nuvoton Electronics Technology (Shenzhen) Limited ("NTSZ") | Computer software service (except I.C. design), wholesale business for computer, supplement and software | 100 | 100 |
| PCH | Nuvoton Technology Corporation America ("NTCA") | Design, sales and after-sales service of semiconductor | 100 | 100 |
| MML | Goldbond LLC ("GLLC") | Investment holding | 100 | 100 |
| GLLC | Nuvoton Electronics Technology (Shanghai) Limited ("NTSH") | Provides projects for sale in China and repairing, testing and consulting of software | 100 | 100 |
| | Winbond Electronics (Nanjing) Ltd. ("WENJ") | Computer software service (except I.C. design) | 100 | 100 |
| NIH | Nuvoton Technology Israel Ltd. ("NTIL") | Design, sales and after-sales service of semiconductor | 100 | 100 |

Note: On May 18, 2016, the Company sold 100% of the shares of Techdesign Corporation to related party, WEC and completed the disposal procedure; please refer to Note 24.

Classification of Current and Non-current Assets and Liabilities

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

Foreign Currencies

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

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's foreign 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 consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, and exchange differences arising are recognized in other comprehensive income.

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

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

d. Financial liabilities

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

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

e. Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group'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 Group 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.

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.

Investment Properties

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

Intangible Assets

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized 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 Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Recoverable amount is the higher of fair value less costs to sell and value in use.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. 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 Group 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 Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- b. The Group 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 Group; 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 Group 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 Group's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

- c. Other long-term employee benefits

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

Taxation

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

a. Current tax

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

b. Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit 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 Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

The Group's critical accounting judgments and key sources of estimation uncertainty 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 | \$ 1,771,527 | \$ 1,802,472 |
| Repurchase agreements collateralized by bonds | <u>127,300</u> | <u>23,200</u> |
| | <u>\$ 1,898,827</u> | <u>\$ 1,825,672</u> |

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

| | December 31 | |
|---------------|--------------------|------------------|
| | 2016 | 2015 |
| Time deposits | <u>\$ 61,854</u> | <u>\$ 61,398</u> |

- b. The Group has time deposits which are not held for the purpose of meeting short-term cash commitments and are reclassified to "other receivables" (Note 9):

| | December 31 | |
|---------------|--------------------|-------------------|
| | 2016 | 2015 |
| Time deposits | <u>\$ 209,820</u> | <u>\$ 199,930</u> |

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | December 31 | |
|---|--------------------|-----------------|
| | 2016 | 2015 |
| <u>Financial liabilities at FVTPL - current</u> | | |
| Foreign exchange forward contracts | <u>\$ 707</u> | <u>\$ 1,379</u> |

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) |
|---------------------------------|-------------------|-----------------------|---|
| <u>December 31, 2016</u> | | | |
| Sell forward exchange contracts | USD/NTD | 2017.01.12-2017.01.26 | USD5,000/NTD160,543 |
| <u>December 31, 2015</u> | | | |
| Sell forward exchange contracts | USD/NTD | 2016.01.05-2016.02.04 | USD10,000/NTD326,871 |

The Group 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 Group did not meet the criteria for hedge accounting, therefore, the Group 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 | 786,160 | 661,809 |
| Less: Allowance for doubtful accounts | <u>(16,743)</u> | <u>(18,007)</u> |
| | <u>\$ 769,488</u> | <u>\$ 643,816</u> |

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

The aging of accounts receivable was as follows:

| | December 31 | |
|----------------------------|--------------------------|--------------------------|
| | 2016 | 2015 |
| Not overdue | \$ 779,326 | \$ 654,806 |
| Overdue under 30 days | 6,905 | 7,017 |
| Overdue 31-90 days | - | - |
| Overdue 91 days and longer | <u>-</u> | <u>-</u> |
| | <u>\$ 786,231</u> | <u>\$ 661,823</u> |

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

| | For the Year Ended December 31 | |
|---------------------------------|---------------------------------------|-------------------------|
| | 2016 | 2015 |
| Balance at January 1 | \$ 18,007 | \$ 14,825 |
| Provision (Reversed) | (1,174) | 2,875 |
| Effect of exchange rate changes | <u>(90)</u> | <u>307</u> |
| Balance at December 31 | <u>\$ 16,743</u> | <u>\$ 18,007</u> |

9. OTHER RECEIVABLES

| | December 31 | |
|--------------------------------|--------------------------|--------------------------|
| | 2016 | 2015 |
| Time deposits (Note 6) | \$ 209,820 | \$ 199,930 |
| Business tax refund receivable | 24,013 | 14,358 |
| Others | <u>22,770</u> | <u>25,939</u> |
| | <u>\$ 256,603</u> | <u>\$ 240,227</u> |

10. INVENTORIES

| | December 31 | |
|----------------------------|---------------------|---------------------|
| | 2016 | 2015 |
| Raw materials and supplies | \$ 79,157 | \$ 74,558 |
| Work-in-process | 850,030 | 756,060 |
| Finished goods | 244,772 | 205,731 |
| Inventories in transit | <u>4,478</u> | <u>1,083</u> |
| | <u>\$ 1,178,437</u> | <u>\$ 1,037,432</u> |

- a. As of December 31, 2016 and 2015, the allowance for inventory devaluation was \$301,837 thousand and \$323,567 thousand, respectively.
- b. The cost of goods sold for the years ended December 31, 2016 and 2015 was \$4,920,966 thousand and \$4,263,860 thousand, respectively. The cost of goods sold included inventory write-downs and obsolescence and abandonment of inventories in the amounts of \$31,806 thousand loss and \$20,309 thousand loss for the years ended December 31, 2016 and 2015, respectively.

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS, NON-CURRENT

| | December 31 | |
|--|-------------------|-------------|
| | 2016 | 2015 |
| <u>Publicly traded investment</u> | | |
| Nyquest Technology Co., Ltd. (Note 12) | <u>\$ 146,913</u> | <u>\$ -</u> |

12. FINANCIAL ASSETS MEASURED AT COST, NON-CURRENT

| | December 31 | |
|---------------------------------------|-------------------|-------------------|
| | 2016 | 2015 |
| <u>Non-publicly traded investment</u> | | |
| 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. | <u>-</u> | <u>68,071</u> |
| | <u>\$ 305,493</u> | <u>\$ 378,564</u> |

Management believed that the above non-publicly traded investments held by the Group 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 Group 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 Group 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 11.

13. PROPERTY, PLANT AND EQUIPMENT

| | December 31 | | | | |
|--|--------------------|-------------------------|-------------------|--|-------------------|
| | 2016 | | 2015 | | |
| Land and buildings | \$ 67,289 | | \$ 80,695 | | |
| Machinery and equipment | 350,405 | | 288,075 | | |
| Other equipment | 72,678 | | 85,483 | | |
| Construction in progress and prepayments for purchase of equipment | <u>35,795</u> | | <u>9,341</u> | | |
| | <u>\$ 526,167</u> | | <u>\$ 463,594</u> | | |
| | | | | | |
| | Land and Buildings | Machinery and Equipment | Other Equipment | Construction in Progress and Prepayments for Purchase of Equipment | Total |
| <u>Cost</u> | | | | | |
| Balance at January 1, 2016 | \$ 3,464,808 | \$ 11,498,434 | \$ 371,575 | \$ 9,341 | \$ 15,344,158 |
| Additions | 7,094 | 154,042 | 16,090 | 30,853 | 208,079 |
| Disposals | - | (113,074) | (23,251) | - | (136,325) |
| Disposal of subsidiaries | - | - | (80) | - | (80) |
| Reclassified | - | 4,410 | (11) | (4,399) | - |
| Effect of foreign currency exchange differences | - | (682) | (6,180) | - | (6,862) |
| Balance at December 31, 2016 | <u>3,471,902</u> | <u>11,543,130</u> | <u>358,143</u> | <u>35,795</u> | <u>15,408,970</u> |
| <u>Accumulated depreciation and impairment</u> | | | | | |
| Balance at January 1, 2016 | 3,384,113 | 11,210,359 | 286,092 | - | 14,880,564 |
| Disposals | - | (112,986) | (22,766) | - | (135,752) |
| Depreciation expenses | 20,500 | 95,823 | 27,438 | - | 143,761 |
| Disposal of subsidiaries | - | - | (10) | - | (10) |
| Effect of foreign currency exchange differences | - | (471) | (5,289) | - | (5,760) |
| Balance at December 31, 2016 | <u>3,404,613</u> | <u>11,192,725</u> | <u>285,465</u> | <u>-</u> | <u>14,882,803</u> |
| Carrying amounts at December 31, 2016 | <u>\$ 67,289</u> | <u>\$ 350,405</u> | <u>\$ 72,678</u> | <u>\$ 35,795</u> | <u>\$ 526,167</u> |
| <u>Cost</u> | | | | | |
| Balance at January 1, 2015 | \$ 3,455,473 | \$ 11,549,648 | \$ 355,185 | \$ 1,466 | \$ 15,361,772 |
| Additions | 12,434 | 108,695 | 20,603 | 9,341 | 151,073 |
| Disposals | (3,141) | (163,186) | (6,902) | - | (173,229) |
| Reclassified | 42 | 1,242 | 182 | (1,466) | - |
| Effect of foreign currency exchange differences | - | 2,035 | 2,507 | - | 4,542 |
| Balance at December 31, 2015 | <u>3,464,808</u> | <u>11,498,434</u> | <u>371,575</u> | <u>9,341</u> | <u>15,344,158</u> |
| <u>Accumulated depreciation and impairment</u> | | | | | |
| Balance at January 1, 2015 | 3,369,222 | 11,281,907 | 263,503 | - | 14,914,632 |
| Disposals | (3,141) | (163,183) | (6,860) | - | (173,184) |
| Depreciation expenses | 18,032 | 90,105 | 27,282 | - | 135,419 |
| Effect of foreign currency exchange differences | - | 1,530 | 2,167 | - | 3,697 |
| Balance at December 31, 2015 | <u>3,384,113</u> | <u>11,210,359</u> | <u>286,092</u> | <u>-</u> | <u>14,880,564</u> |
| Carrying amounts at December 31, 2015 | <u>\$ 80,695</u> | <u>\$ 288,075</u> | <u>\$ 85,483</u> | <u>\$ 9,341</u> | <u>\$ 463,594</u> |

14. INVESTMENT PROPERTIES

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

The investment properties are located in Shen-Zhen, China. As of December 31, 2016 and 2015, the fair value of such investment properties was both approximately \$200,000 thousand, by reference to neighboring area transactions.

| | Investment Properties |
|---|-----------------------|
| <u>Cost</u> | |
| Balance at January 1, 2016 | \$ 114,300 |
| Effect of foreign currency exchange differences | <u>(8,650)</u> |
| Balance at December 31, 2016 | <u>105,650</u> |
| <u>Accumulated depreciation and impairment</u> | |
| Balance at January 1, 2016 | 42,434 |
| Depreciation expenses | 4,993 |
| Effect of foreign currency exchange differences | <u>(3,450)</u> |
| Balance at December 31, 2016 | <u>43,977</u> |
| Carrying amount at December 31, 2016 | \$ <u>61,673</u> |
| <u>Cost</u> | |
| Balance at January 1, 2015 | \$ 116,521 |
| Effect of foreign currency exchange differences | <u>(2,221)</u> |
| Balance at December 31, 2015 | <u>114,300</u> |
| <u>Accumulated depreciation and impairment</u> | |
| Balance at January 1, 2015 | 38,015 |
| Depreciation expenses | 5,183 |
| Effect of foreign currency exchange differences | <u>(764)</u> |
| Balance at December 31, 2015 | <u>42,434</u> |
| Carrying amount at December 31, 2015 | \$ <u>71,866</u> |

15. INTANGIBLE ASSETS

| | December 31 | |
|---------------------------|-------------------|-------------------|
| | 2016 | 2015 |
| Deferred technical assets | \$ 256,526 | \$ 241,310 |
| Other intangible assets | <u>1,414</u> | <u>1,312</u> |
| | <u>\$ 257,940</u> | <u>\$ 242,622</u> |

| | Deferred Technical Assets | Other Intangible Assets | Total |
|---|---------------------------------|-------------------------------|----------------|
| <u>Cost</u> | | | |
| Balance at January 1, 2016 | \$ 883,565 | \$ 3,852 | \$ 887,417 |
| Additions | 101,431 | 799 | 102,230 |
| Disposal of subsidiaries | - | (237) | (237) |
| Effect of foreign currency exchange differences | (286) | (311) | (597) |
| Balance at December 31, 2016 | <u>984,710</u> | <u>4,103</u> | <u>988,813</u> |

Accumulated amortization and impairment

| | | | |
|---|----------------|--------------|----------------|
| Balance at January 1, 2016 | 642,255 | 2,540 | 644,795 |
| Amortization expenses | 86,129 | 439 | 86,568 |
| Disposal of subsidiaries | - | (83) | (83) |
| Effect of foreign currency exchange differences | (200) | (207) | (407) |
| Balance at December 31, 2016 | <u>728,184</u> | <u>2,689</u> | <u>730,873</u> |

| | | | |
|---------------------------------------|-------------------|-----------------|-------------------|
| Carrying amounts at December 31, 2016 | <u>\$ 256,526</u> | <u>\$ 1,414</u> | <u>\$ 257,940</u> |
|---------------------------------------|-------------------|-----------------|-------------------|

Cost

| | | | |
|---|----------------|--------------|----------------|
| Balance at January 1, 2015 | \$ 870,293 | \$ 2,935 | \$ 873,228 |
| Additions | 9,593 | 993 | 10,586 |
| Effect of foreign currency exchange differences | 3,679 | (76) | 3,603 |
| Balance at December 31, 2015 | <u>883,565</u> | <u>3,852</u> | <u>887,417</u> |

Accumulated amortization and impairment

| | | | |
|---|----------------|--------------|----------------|
| Balance at January 1, 2015 | 561,172 | 2,266 | 563,438 |
| Amortization expenses | 78,808 | 319 | 79,127 |
| Effect of foreign currency exchange differences | 2,275 | (45) | 2,230 |
| Balance at December 31, 2015 | <u>642,255</u> | <u>2,540</u> | <u>644,795</u> |

| | | | |
|---------------------------------------|-------------------|-----------------|-------------------|
| Carrying amounts at December 31, 2015 | <u>\$ 241,310</u> | <u>\$ 1,312</u> | <u>\$ 242,622</u> |
|---------------------------------------|-------------------|-----------------|-------------------|

16. OTHER PAYABLES

| | December 31 | |
|---|-------------------|-------------------|
| | 2016 | 2015 |
| Payable for salaries or employee benefits | \$ 406,069 | \$ 366,262 |
| Payable for businesses | 155,062 | 142,104 |
| Payable for royalties | 70,671 | 67,136 |
| Payable for purchase of equipment | 75,710 | 43,820 |
| Others | <u>209,949</u> | <u>196,761</u> |
| | <u>\$ 917,461</u> | <u>\$ 816,083</u> |

17. PROVISIONS

| | December 31 | |
|--|-------------------|-------------------|
| | 2016 | 2015 |
| Products guarantee based on commitment | \$ 101,891 | \$ 101,891 |
| Employee benefits | <u>-</u> | <u>2,002</u> |
| | <u>\$ 101,891</u> | <u>\$ 103,893</u> |

Employee benefits are the estimated payable for employee turnover, which are reclassified from other non-current liabilities to accrued pension liabilities in 2016.

18. RETIREMENT BENEFIT PLANS

a. Defined contribution plan

The Company and Techdesign Corporation 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. On May 18, 2016, the Group sold 100% of the shares of subsidiary Techdesign Corporation, to related party, WEC.

The Group's subsidiaries in the United States, Hong Kong, Israel and China are members of local state-managed defined contribution plan. The Group contributes a specified percentage of employees' payroll to the retirement fund. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

b. Defined benefit plan

The defined benefit plan adopted by the Company 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 payables for employee turnover of NTIL are calculated on the basis of the length of service and the last monthly salary under a defined benefit plan.

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

| | December 31 | |
|---|-------------------|-------------------|
| | 2016 | 2015 |
| Present value of defined benefit obligation | \$ 1,194,714 | \$ 854,733 |
| Fair value of plan assets | <u>(842,676)</u> | <u>(476,000)</u> |
| Net defined benefit liability | <u>\$ 352,038</u> | <u>\$ 378,733</u> |

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

| | Present Value of the Defined Benefit Obligation | Fair Value of the Plan Assets | Net Defined Benefit Liability (Asset) |
|---|--|----------------------------------|---|
| Balance at January 1, 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 |
| 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 | 30,543 | - | 30,543 |
| Net interest expense (income) | 29,226 | (14,795) | 14,431 |
| Others | 1,486 | (2,080) | (594) |
| Recognized in profit or loss | 61,255 | (16,875) | 44,380 |
| 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 | 30,364 | (10,601) | 19,763 |
| Actuarial (gain) loss - experience adjustments | 8,465 | (477) | 7,988 |
| Recognized in other comprehensive income | 38,829 | (4,784) | 34,045 |
| Contributions from the employer | - | (107,070) | (107,070) |
| Plan assets paid | (41,342) | 41,259 | (83) |
| Reclassified | 281,543 | (279,541) | 2,002 |
| Effect of foreign currency exchange difference | (304) | 335 | 31 |
| Balance at December 31, 2016 | \$ 1,194,714 | \$ (842,676) | \$ 352,038 |

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 | 5,325 | 1,626 |
| Research and development expenses | 29,649 | 6,490 |
| | <u>\$ 44,380</u> | <u>\$ 19,002</u> |

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

- 1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the 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%-4.95% | 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 | <u>\$ (29,260)</u> | <u>\$ (23,097)</u> |
| 0.25% decrease | <u>\$ 29,927</u> | <u>\$ 24,032</u> |
| Expected rate(s) of salary increase | | |
| 0.25% increase | <u>\$ 28,374</u> | <u>\$ 24,027</u> |
| 0.25% decrease | <u>\$ (27,435)</u> | <u>\$ (23,203)</u> |

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

| | December 31 | |
|--|-------------------|------------------|
| | 2016 | 2015 |
| The expected contributions to the plan for the next year | <u>\$ 116,294</u> | <u>\$ 84,672</u> |
| The average duration of the defined benefit obligation | 10-13.66 years | 11.2 years |

19. EQUITY

a. Common stock

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

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 | <u>13</u> | <u>13</u> |
| | <u>\$ 63,498</u> | <u>\$ 63,498</u> |

* Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed 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 22 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 | <u>373,598</u> | <u>249,065</u> | \$ 1.80 | \$ 1.20 |
| | <u>\$ 420,500</u> | <u>\$ 283,374</u> | | |

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 Group'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

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. As of December 31, 2016, other comprehensive income was \$83,348 thousand.

20. REVENUE

Please refer to Note 32.

21. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Income tax recognized in profit or loss

The major components of income tax expense were as follows:

| | For the Year Ended December 31 | |
|---|---------------------------------------|-------------------|
| | 2016 | 2015 |
| Current income tax | \$ 103,568 | \$ 88,419 |
| Adjustments for prior year's tax | 5,433 | (6,571) |
| Deferred tax | <u>(13,216)</u> | <u>21,115</u> |
| Income tax expense recognized in profit or loss | <u>\$ 95,785</u> | <u>\$ 102,963</u> |

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 | \$ 125,173 | \$ 102,520 |
| Adjustments | | |
| Permanent differences | (20,526) | (16,320) |
| Others | 6,921 | 13,219 |
| Tax-exempt income | (8,000) | (11,000) |
| Additional income tax on unappropriated earnings | 1,888 | 5,358 |
| Current income tax credit | <u>(1,888)</u> | <u>(5,358)</u> |
| Current income tax | 103,568 | 88,419 |
| Deferred income tax | (13,216) | 21,115 |
| Adjustment for prior years' tax | <u>5,433</u> | <u>(6,571)</u> |
| Income tax expense recognized in profit or loss | <u>\$ 95,785</u> | <u>\$ 102,963</u> |

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

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 assets and liabilities

| | December 31 | |
|-----------------------|--------------------|------------------|
| | 2016 | 2015 |
| Tax refund receivable | <u>\$ 8,331</u> | <u>\$ 16,077</u> |
| Income tax payable | <u>\$ 16,558</u> | <u>\$ 53,834</u> |

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 | <u>104,627</u> | <u>94,287</u> |
| | <u>\$ 104,627</u> | <u>\$ 127,287</u> |

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:

| <u>Expansion of Construction Project</u> | <u>Tax-exemption Period</u> |
|--|-----------------------------|
| 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 | <u>\$ 786,274</u> | <u>\$ 627,654</u> |
| Imputation credits account | <u>\$ 113,443</u> | <u>\$ 148,632</u> |

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.

22. EMPLOYEE BENEFITS EXPENSE, DEPRECIATION, AND AMORTIZATION

| | For the Year Ended December 31 | | | | | | | |
|-------------------------------------|--------------------------------|----------------------------------|---|--------------|-------------------------------|----------------------------------|---|--------------|
| | 2016 | | | | 2015 | | | |
| | Classified as Operating Costs | Classified as Operating Expenses | Classified as Non-operating Income and Losses | Total | Classified as Operating Costs | Classified as Operating Expenses | Classified as Non-operating Income and Losses | Total |
| Employee benefits expense | | | | | | | | |
| Short-term employment benefits | \$ 696,544 | \$ 1,666,956 | \$ - | \$ 2,363,500 | \$ 696,071 | \$ 1,496,464 | \$ - | \$ 2,192,535 |
| Post-employment benefits | 33,105 | 129,152 | - | 162,257 | 34,574 | 74,320 | - | 108,894 |
| Other long-term employment benefits | - | - | - | - | - | 47,027 | - | 47,027 |
| Depreciation | 98,833 | 44,928 | 4,993 | 148,754 | 92,171 | 43,248 | 5,183 | 140,602 |
| Amortization | 33,293 | 53,411 | - | 86,704 | 33,290 | 46,245 | - | 79,535 |

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's 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 consolidated 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.

23. 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\$) |
|---|------------------------|---|-------------|
| <u>For the year ended December 31, 2016</u> | | | |
| 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 |
| | | | (Continued) |

| | Amounts (Numerator) | Shares (Denominator) (In Thousands) | EPS (NT\$) |
|---|------------------------|---|-------------|
| <u>For the year ended December 31, 2015</u> | | | |
| Net profit | \$ 469,022 | | |
| 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.

24. DISPOSAL OF SUBSIDIARIES

On May 18, 2016, the Group sold 100% of the shares of Techdesign Corporation to related party, WEC; accordingly the Group lost its control. The selling price of the investments was \$49,850 thousand and the Group received the total amount.

a. Analysis of assets and liabilities over which the control was lost

| | Techdesign Corporation |
|-------------------------------|---------------------------|
| Current assets | |
| Cash and cash equivalents | \$ 35,148 |
| Other receivables | 15 |
| Other current assets | 250 |
| Non-current assets | |
| Property, plant and equipment | 70 |
| Intangible assets | 154 |
| Refundable deposits | 151 |
| Current liabilities | |
| Other payables | (947) |
| Other current liabilities | (128) |
| Net assets disposed of | \$ 34,713 |

b. Gain on disposal of subsidiary

| | Techdesign Corporation |
|------------------------|-------------------------------|
| Consideration received | \$ 49,850 |
| Net assets disposed of | <u>(34,713)</u> |
| Gain on disposal | <u>\$ 15,137</u> |

c. Net cash inflow arising from disposal of subsidiary

| | Techdesign Corporation |
|---|-------------------------------|
| Consideration received in cash and cash equivalents | \$ 49,850 |
| Less: Cash and cash equivalent balance disposed of | <u>(35,148)</u> |
| | <u>\$ 14,702</u> |

25. OPERATING LEASE ARRANGEMENTS

The Group as Lessee

a. Lease arrangements

The Group 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 Group 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 28.

The Group leased some of the offices in the United States, China, Israel, India and part in Taiwan, and the lease terms will expire between 2016 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 \$36,281 thousand and \$35,221 thousand, respectively.

b. Prepayments for lease obligations

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

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 | <u>\$ 105,433</u> | <u>\$ 103,559</u> |

The Group as Lessor

Operating lease agreements

Operating leases relate to the leasing of investment property with lease terms of 3-5 years, and with an extension option. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have a bargain purchase option to acquire the property at the expiry of the lease period.

As of December 31, 2016 and 2015, deposits received under operating leases amounted to \$1,911 thousand and \$2,026 thousand, respectively (recorded as “other non-current liabilities”).

26. CAPITAL MANAGEMENT

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

27. FINANCIAL INSTRUMENT

a. Categories of financial instruments

| | December 31 | | | |
|--|------------------------|-------------------|------------------------|-------------------|
| | 2016 | | 2015 | |
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| <u>Financial assets</u> | | | | |
| Loans and receivables | | | | |
| Cash and cash equivalents | \$ 1,898,827 | \$ 1,898,827 | \$ 1,825,672 | \$ 1,825,672 |
| Notes and accounts receivable | 769,488 | 769,488 | 643,816 | 643,816 |
| Accounts receivable due from related parties | 57,063 | 57,063 | 56,392 | 56,392 |
| Other receivables | 223,853 | 223,853 | 208,994 | 208,994 |
| Refundable deposits | 70,671 | 70,671 | 69,370 | 69,370 |
| Available-for-sale financial assets | 146,913 | 146,913 | - | - |
| Financial assets measured at cost, non-current | 305,493 | 305,267 | 378,564 | 378,329 |
| | | | | (Continued) |

| | December 31 | | | |
|--|-----------------|------------|-----------------|-------------|
| | 2016 | | 2015 | |
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| <u>Financial liabilities</u> | | | | |
| Measured at amortized cost | | | | |
| Accounts payable | 906,542 | 906,542 | 666,073 | 666,073 |
| Other payables | 913,973 | 913,973 | 812,841 | 812,841 |
| Guarantee deposits (recorded in other non-current liabilities) | 58,668 | 58,668 | 39,932 | 39,932 |
| 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 |
| | | | | (Concluded) |

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 consolidated 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 |
| <u>Available-for-sale financial assets</u> | | | | |
| Domestic listed equity securities | \$ 146,913 | \$ - | \$ - | \$ 146,913 |
| <u>Financial liabilities at FVTPL</u> | | | | |
| Derivatives | \$ - | \$ 707 | \$ - | \$ 707 |
| December 31, 2015 | | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| <u>Financial liabilities at FVTPL</u> | | | | |
| 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 |
| <u>Financial assets measured at cost</u> | | | | | |
| Domestic emerging equity securities | \$ 493 | \$ - | \$ 267 | \$ - | \$ 267 |
| December 31, 2015 | | | | | |
| | Carrying Amount | Level 1 | Level 2 | Level 3 | Total |
| <u>Financial assets measured at cost</u> | | | | | |
| 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 Group 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 Group's policies approved by the Board of Directors, which provide written principles on foreign exchange risk, and use of financial derivatives. Compliance with policies and exposure limits was reviewed by the internal auditors on a continuous basis.

1) Market risk

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

a) Foreign currency risk

The Group is engaged in foreign currency transaction and thus it is exposed to the risk of changes in foreign currency exchange rates. The Group 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 Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are set out in Note 31.

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 \$482 thousand and \$1,761 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 Group's interest rate risk arises primarily from floating rate deposits.

As of December 31, 2016 and 2015, the carrying amount of the Group's floating rate deposits with exposure to interest rates was \$8,272 thousand and \$8,221 thousand, respectively.

The sensitivity analyses below were determined based on the Group'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 Group's cash flows for the year ended December 31, 2016 and 2015 would have increased by \$83 thousand and \$82 thousand, respectively.

2) Credit risk

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

3) Liquidity risk

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

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

| | December 31, 2016 | | | Total |
|--------------------------------------|---------------------|------------------|------------------|---------------------|
| | Within 1 Year | 1-2 Years | Over 2 Years | |
| Non-derivative financial liabilities | | | | |
| Non-interest bearing | <u>\$ 1,820,515</u> | <u>\$ 11,434</u> | <u>\$ 11,434</u> | <u>\$ 1,843,383</u> |

| | December 31, 2015 | | | |
|--------------------------------------|-------------------|-----------|--------------|--------------|
| | Within 1 Year | 1-2 Years | Over 2 Years | Total |
| Non-derivative financial liabilities | | | | |
| Non-interest bearing | \$ 1,478,914 | \$ 11,127 | \$ 21,663 | \$ 1,511,704 |

28. RELATED PARTY TRANSACTIONS

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

| Related Party | Relationship with the Group |
|--|-----------------------------|
| Winbond Electronics Corporation ("WEC") | Parent company |
| Winbond Electronics (HK) Limited ("WEHK") | Associate |
| Winbond Electronics (Suzhou) Limited ("WECN") | Associate |
| Winbond Electronics Corporation America ("WECA") | Associate |
| Winbond Electronics Corporation Japan ("WECJ") | Associate |
| Winbond Technology Ltd. (Israel) ("WECT") | Associate |
| Techdesign Corporation | Associate (Note) |
| 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 Group sold 100% of the shares of Techdesign Corporation to related party, WEC.

- b. Operating activities

| | For the Year Ended December 31 | |
|--|--------------------------------|-------------------|
| | 2016 | 2015 |
| 1) Operating revenue | | |
| Related party in substance | \$ 243,022 | \$ 214,017 |
| Associate | <u>76,280</u> | <u>90,300</u> |
| | <u>\$ 319,302</u> | <u>\$ 304,317</u> |
| 2) Purchase | | |
| Parent company | <u>\$ 144,876</u> | <u>\$ 131,520</u> |
| 3) Selling expenses | | |
| Associate | <u>\$ 711</u> | <u>\$ 893</u> |
| 4) General and administrative expenses | | |
| Related party in substance | \$ 10,331 | \$ 10,331 |
| Associate | 711 | 893 |
| Parent company | <u>110</u> | <u>1,715</u> |
| | <u>\$ 11,152</u> | <u>\$ 12,939</u> |

| | | For the Year Ended December 31 | |
|---|------------------|--------------------------------|------|
| | | 2016 | 2015 |
| 5) Research and development expenses | | | |
| Associate | \$ 10,645 | \$ 15,015 | |
| Parent company | <u>69</u> | <u>74</u> | |
| | <u>\$ 10,714</u> | <u>\$ 15,089</u> | |
| | | December 31 | |
| | | 2016 | 2015 |
| 6) Other income | | | |
| Related party in substance | <u>\$ 8,188</u> | <u>\$ 10,902</u> | |
| 7) Accounts receivable due from related parties | | | |
| Related party in substance | \$ 42,340 | \$ 42,476 | |
| Associate | <u>14,723</u> | <u>13,916</u> | |
| | <u>\$ 57,063</u> | <u>\$ 56,392</u> | |
| 8) Other receivables | | | |
| Associate | <u>\$ 404</u> | <u>\$ 546</u> | |
| 9) Refundable deposits | | | |
| Related party in substance | <u>\$ 1,722</u> | <u>\$ 1,722</u> | |
| 10) Accounts payable to related parties | | | |
| Parent company | <u>\$ 27,149</u> | <u>\$ 19,882</u> | |
| 11) Other payables | | | |
| Parent company | \$ 11,006 | \$ 52 | |
| Associate | <u>-</u> | <u>955</u> | |
| | <u>\$ 11,006</u> | <u>\$ 1,007</u> | |
| 12) Guarantee deposits | | | |
| Parent company | \$ 545 | \$ 545 | |
| Associate | <u>151</u> | <u>-</u> | |
| | <u>\$ 696</u> | <u>\$ 545</u> | |

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) Payment for property, plant and equipment

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

c. 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 25.

d. 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 24.

e. Compensation of key management personnel

| | For the Year Ended December 31 | |
|-------------------------------------|---------------------------------------|------------------|
| | 2016 | 2015 |
| Short-term employment benefits | \$ 67,191 | \$ 52,201 |
| Post-employment benefits | 3,697 | 1,778 |
| Other long-term employment benefits | - | 677 |
| | <u>\$ 70,888</u> | <u>\$ 54,656</u> |

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

29. PLEDGED AND COLLATERALIZED ASSETS

Please refer to Note 6.

30. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

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

31. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by foreign currencies other than functional currency of the Group 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 (Note) | New Taiwan Dollars (Thousand) | Foreign Currencies (Thousand) | Exchange Rate (Note) | New Taiwan Dollars (Thousand) |
| <u>Financial assets</u> | | | | | | |
| Monetary items | | | | | | |
| USD | \$ 22,873 | 32.25 | \$ 737,639 | \$ 21,437 | 32.825 | \$ 703,678 |
| ILS | 13,094 | 8.3882 | 109,834 | 12,104 | 8.4085 | 101,776 |
| RMB | 2,169 | 4.617 | 10,014 | 1,576 | 4.995 | 7,870 |
| <u>Financial liabilities</u> | | | | | | |
| 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 |

Note: Foreign currencies exchange to New Taiwan dollars by each unit.

The total of realized and unrealized net foreign exchange net gains was \$6,583 thousand and \$21,852 thousand for the years ended December 31, 2016 and 2015, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions of the group entities.

32. SEGMENT INFORMATION

a. Basic information about operating segment

1) Classification of operating segments

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

a) Segment of general IC product

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

b) Segment of wafer Foundry product

The wafer Foundry product segment engages mainly in the researching, designing, manufacturing and selling.

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

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

b. Segment revenues and operating results

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

| | Segment Revenue | | Segment Profit and Loss | |
|--|---------------------------|---------------------|--------------------------------|-------------------|
| | For the Year Ended | | For the Year Ended | |
| | December 31 | | December 31 | |
| | 2016 | 2015 | 2016 | 2015 |
| General IC product | \$ 6,654,941 | \$ 5,758,637 | \$ 725,909 | \$ 736,332 |
| Wafer Foundry | <u>1,662,701</u> | <u>1,534,000</u> | <u>579,309</u> | <u>477,871</u> |
| Total of segment revenue | 8,317,642 | 7,292,637 | 1,305,218 | 1,214,203 |
| Other revenue | <u>11,644</u> | <u>20,750</u> | <u>11,644</u> | <u>20,750</u> |
| Operating revenue | <u>\$ 8,329,286</u> | <u>\$ 7,313,387</u> | 1,316,862 | 1,234,953 |
| Unallocated expenditure | | | | |
| Administrative and supporting expense | | | (355,741) | (346,482) |
| Sales and other common expenses | | | <u>(356,279)</u> | <u>(402,217)</u> |
| Total operating profit | | | 604,842 | 486,254 |
| Interest income | | | 16,135 | 16,656 |
| Dividend income | | | 57,354 | 52,284 |
| Other gains and losses | | | 9,926 | 6,568 |
| Interest expense | | | - | (1,344) |
| Gains (losses) on disposal of property, plant and equipment | | | (34) | 891 |
| Gains (losses) on disposal of investments | | | 18,874 | - |
| Foreign exchange gains (losses) | | | 6,583 | 21,852 |
| Gains (losses) on financial instruments at fair value through profit or loss | | | <u>(4,730)</u> | <u>(11,176)</u> |
| Profit before income tax | | | <u>\$ 708,950</u> | <u>\$ 571,985</u> |

c. Geographical information

The Group operate mainly in Asia, United States and Europe.

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

| | Revenue from External Customers | | Non-current Assets | |
|---------------|---------------------------------|---------------------|--------------------|-------------------|
| | For the Year Ended December 31 | | December 31 | |
| | 2016 | 2015 | 2016 | 2015 |
| Asia | \$ 7,895,516 | \$ 6,664,464 | \$ 879,134 | \$ 813,138 |
| United States | 220,700 | 427,252 | 8,144 | 8,822 |
| Europe | 117,521 | 121,725 | - | - |
| Others | <u>95,549</u> | <u>99,946</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 8,329,286</u> | <u>\$ 7,313,387</u> | <u>\$ 887,278</u> | <u>\$ 821,960</u> |

d. Major customer information

Individual customer which exceeded 10% of the Group's operating revenue for the years ended December 31, 2016 and 2015 was as follows:

| | For the Year Ended December 31 | | | |
|----------|--------------------------------|-----------|-------------------|-----------|
| | 2016 | | 2015 | |
| | Amount | % | Amount | % |
| Client J | <u>\$ 1,206,134</u> | <u>14</u> | <u>\$ 908,637</u> | <u>12</u> |