

Nuvoton Technology Corporation

**Financial Statements for the
Years Ended December 31, 2015 and 2014 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Nuvoton Technology Corporation

We have audited the accompanying balance sheets of Nuvoton Technology Corporation (the "Company") as of December 31, 2015 and 2014, and the related statements of comprehensive income, changes in equity, and cash flows for the years ended December 31, 2015 and 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2015 and 2014 and its financial performance and its cash flows for the years ended December 31, 2015 and 2014, in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

January 28, 2016

Notice to Readers

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

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

NUVOTON TECHNOLOGY CORPORATION

BALANCE SHEETS

DECEMBER 31, 2015 AND 2014

(In Thousands of New Taiwan Dollars)

ASSETS	2015		2014	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	\$ 1,382,349	26	\$ 1,177,605	24
Notes and accounts receivable, net (Notes 4 and 8)	348,309	7	442,671	9
Accounts receivable due from related parties, net (Notes 4 and 23)	122,670	2	99,067	2
Other receivables	17,698	-	17,871	-
Inventories (Notes 4 and 9)	1,025,215	20	783,566	16
Other current assets (Note 20)	<u>79,086</u>	<u>2</u>	<u>73,136</u>	<u>2</u>
Total current assets	<u>2,975,327</u>	<u>57</u>	<u>2,593,916</u>	<u>53</u>
NON-CURRENT ASSETS				
Financial assets measured at cost, non-current (Notes 4 and 10)	355,184	7	365,184	8
Investments accounted for using equity method (Notes 4 and 11)	1,109,330	21	1,047,632	22
Property, plant and equipment (Notes 4 and 12)	410,239	8	388,320	8
Intangible assets (Notes 4 and 13)	197,238	3	252,274	5
Deferred income tax assets (Notes 4 and 17)	94,000	2	104,000	2
Refundable deposits (Note 6)	64,380	1	63,341	1
Other non-current assets (Note 20)	<u>42,273</u>	<u>1</u>	<u>44,655</u>	<u>1</u>
Total non-current assets	<u>2,272,644</u>	<u>43</u>	<u>2,265,406</u>	<u>47</u>
TOTAL	<u>\$ 5,247,971</u>	<u>100</u>	<u>\$ 4,859,322</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss, current (Notes 4 and 7)	\$ 1,379	-	\$ 5,641	-
Accounts payable	664,834	13	537,810	11
Other payables (Note 14)	758,447	14	647,244	13
Other payables due from related parties (Note 23)	99,150	2	104,834	2
Current tax liabilities (Notes 4 and 17)	52,885	1	70,640	2
Other current liabilities	<u>32,075</u>	<u>1</u>	<u>44,980</u>	<u>1</u>
Total current liabilities	<u>1,608,770</u>	<u>31</u>	<u>1,411,149</u>	<u>29</u>
NON-CURRENT LIABILITIES				
Products guarantee based on commitment (Note 4)	101,891	2	72,698	1
Accrued pension liabilities (Note 15)	378,733	7	414,764	9
Other non-current liabilities	<u>36,776</u>	<u>1</u>	<u>46,642</u>	<u>1</u>
Total non-current liabilities	<u>517,400</u>	<u>10</u>	<u>534,104</u>	<u>11</u>
Total liabilities	<u>2,126,170</u>	<u>41</u>	<u>1,945,253</u>	<u>40</u>
EQUITY				
Common stock (Note 16)	2,075,544	39	2,075,544	43
Capital surplus				
Additional paid-in capital	63,485	1	63,485	1
Employee share options	13	-	13	-
Retained earnings				
Legal reserve	293,628	6	259,319	5
Unappropriated earnings	627,654	12	471,650	10
Exchange differences on translating foreign operations (Note 4)	<u>61,477</u>	<u>1</u>	<u>44,058</u>	<u>1</u>
Total equity	<u>3,121,801</u>	<u>59</u>	<u>2,914,069</u>	<u>60</u>
TOTAL	<u>\$ 5,247,971</u>	<u>100</u>	<u>\$ 4,859,322</u>	<u>100</u>

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

NUVOTON TECHNOLOGY CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2015		2014	
	Amount	%	Amount	%
OPERATING REVENUE	\$ 7,022,517	100	\$ 6,502,909	100
OPERATING COST	<u>4,255,699</u>	<u>61</u>	<u>3,922,800</u>	<u>61</u>
GROSS PROFIT	<u>2,766,818</u>	<u>39</u>	<u>2,580,109</u>	<u>39</u>
OPERATING EXPENSES				
Selling expenses	132,652	2	109,786	2
General and administrative expenses	312,143	5	308,594	5
Research and development expenses	<u>1,845,137</u>	<u>26</u>	<u>1,859,502</u>	<u>28</u>
Total operating expenses	<u>2,289,932</u>	<u>33</u>	<u>2,277,882</u>	<u>35</u>
PROFIT FROM OPERATIONS	<u>476,886</u>	<u>6</u>	<u>302,227</u>	<u>4</u>
NON-OPERATING INCOME AND LOSSES				
Share of profit of subsidiaries and associates accounted for using equity method	5,986	-	28,742	1
Interest income	9,144	-	9,043	-
Dividend income	48,654	1	39,610	1
Other gains and losses	363	-	1,134	-
Gains (losses) on disposal of property, plant and equipment	899	-	258	-
Gains (losses) on disposal of investments	-	-	27,940	-
Foreign exchange gains (losses)	19,897	-	22,910	-
Gains (losses) on financial instruments at fair value through profit or loss	(11,176)	-	(21,898)	-
Interest expense	<u>(1,344)</u>	<u>-</u>	<u>(238)</u>	<u>-</u>
Total non-operating income and losses	<u>72,423</u>	<u>1</u>	<u>107,501</u>	<u>2</u>
PROFIT BEFORE INCOME TAX	549,309	7	409,728	6
INCOME TAX EXPENSE (Notes 4 and 17)	<u>(80,287)</u>	<u>(1)</u>	<u>(66,638)</u>	<u>(1)</u>
NET PROFIT	<u>469,022</u>	<u>6</u>	<u>343,090</u>	<u>5</u>

(Continued)

NUVOTON TECHNOLOGY CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2015		2014	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss				
Remeasurement of defined benefit plans (Notes 4 and 15)	\$ (29,644)	-	\$ (6,134)	-
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translating foreign operations	<u>17,419</u>	<u>-</u>	<u>19,872</u>	<u>-</u>
Other comprehensive income (loss)	<u>(12,225)</u>	<u>-</u>	<u>13,738</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME	<u>\$ 456,797</u>	<u>6</u>	<u>\$ 356,828</u>	<u>5</u>
EARNINGS PER SHARE (Notes 4 and 19)				
From continuing operations				
Basic	<u>\$2.26</u>		<u>\$1.65</u>	
Diluted	<u>\$2.24</u>		<u>\$1.64</u>	

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

(Concluded)

NUVOTON TECHNOLOGY CORPORATION

STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (In Thousands of New Taiwan Dollars)

	Common Stock	Capital Surplus			Retained Earnings			Exchange Differences on Translating Foreign Operations	Total Equity
		Additional Paid-in Capital	Changes in Equities of Associates	Employee Share Options	Legal Reserve	Special Reserve	Unappropriated Earnings		
BALANCE, JANUARY 1, 2014	\$ 2,075,544	\$ 63,485	\$ 413	\$ 13	\$ 233,397	\$ 76,488	\$ 333,193	\$ 24,186	\$ 2,806,719
Net profit in 2014	-	-	-	-	-	-	343,090	-	343,090
Other comprehensive income (loss) in 2014	-	-	-	-	-	-	(6,134)	19,872	13,738
Total comprehensive income in 2014	-	-	-	-	-	-	336,956	19,872	356,828
Change in equity of associates accounted for using equity method	-	-	(413)	-	-	-	-	-	(413)
Appropriation of 2013 earnings (Note 16)									
Legal reserve	-	-	-	-	25,922	-	(25,922)	-	-
Special reserve	-	-	-	-	-	(76,488)	76,488	-	-
Cash dividends	-	-	-	-	-	-	(249,065)	-	(249,065)
BALANCE, DECEMBER 31, 2014	2,075,544	63,485	-	13	259,319	-	471,650	44,058	2,914,069
Net profit in 2015	-	-	-	-	-	-	469,022	-	469,022
Other comprehensive income (loss) in 2015	-	-	-	-	-	-	(29,644)	17,419	(12,225)
Total comprehensive income in 2015	-	-	-	-	-	-	439,378	17,419	456,797
Appropriation of 2014 earnings (Note 16)									
Legal reserve	-	-	-	-	34,309	-	(34,309)	-	-
Cash dividends	-	-	-	-	-	-	(249,065)	-	(249,065)
BALANCE, DECEMBER 31, 2015	<u>\$ 2,075,544</u>	<u>\$ 63,485</u>	<u>\$ -</u>	<u>\$ 13</u>	<u>\$ 293,628</u>	<u>\$ -</u>	<u>\$ 627,654</u>	<u>\$ 61,477</u>	<u>\$ 3,121,801</u>

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

NUVOTON TECHNOLOGY CORPORATION

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (In Thousands of New Taiwan Dollars)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 549,309	\$ 409,728
Adjustments for:		
Depreciation expenses	116,856	115,974
Amortization expenses	64,629	75,348
Interest expense	1,344	238
Interest income	(9,144)	(9,043)
Dividend income	(48,654)	(39,610)
Share of profit of subsidiaries and associates accounted for using equity method	(5,986)	(28,742)
Unrealized gain or loss	796	(19)
Net (gain) loss on fair value change of financial assets and liabilities designated as at fair value through profit or loss	(4,262)	4,937
(Gain) loss on disposal of property, plant and equipment	(899)	(258)
(Gain) loss on disposal of investments	-	(27,940)
Changes in operating assets and liabilities		
(Increase) decrease in notes and accounts receivable	94,362	17,461
(Increase) decrease in accounts receivable due from related parties	(23,603)	69,835
(Increase) decrease in other receivables	21	56,624
(Increase) decrease in inventories	(241,649)	74,561
(Increase) decrease in other current assets	(5,950)	(15,968)
(Increase) decrease in other non-current assets	2,382	(44,655)
Increase (decrease) in accounts payable	127,024	(13,526)
Increase (decrease) in other payables	102,219	8,943
Increase (decrease) in other current liabilities	(12,905)	18,068
Increase (decrease) on products guarantee based on commitment	29,193	27,283
Increase (decrease) on accrued pension liabilities	(65,675)	9,324
Increase (decrease) in other non-current liabilities	106	(16)
Cash generated from operations	<u>669,514</u>	<u>708,547</u>
Income tax paid	(88,042)	(94,097)
Interest paid	(1,344)	(378)
Interest received	9,296	9,436
Dividend received	<u>51,085</u>	<u>45,304</u>
Net cash generated from (used in) operating activities	<u>640,509</u>	<u>668,812</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for intangible assets	(21,269)	(122,702)
Proceeds from capital reduction of financial assets measured at cost	10,000	-
Acquisition of investment accounted for using equity method	(83,718)	(41,841)
Proceeds from disposal of investments accounted for using equity method	-	71,372
Proceeds from capital reduction of investments accounted for using equity method	42,198	-
Payments for property, plant and equipment	(133,800)	(103,840)

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NUVOTON TECHNOLOGY CORPORATION

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (In Thousands of New Taiwan Dollars)

	2015	2014
Proceeds from disposal of property, plant and equipment	\$ 928	\$ 286
(Increase) decrease in refundable deposits	<u>(1,039)</u>	<u>(5,178)</u>
Net cash generated from (used in) investing activities	<u>(186,700)</u>	<u>(201,903)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term borrowings	-	(178,830)
Cash dividends	<u>(249,065)</u>	<u>(249,065)</u>
Net cash generated from (used in) financing activities	<u>(249,065)</u>	<u>(427,895)</u>
NET INCREASE (DECREASE)IN CASH AND CASH EQUIVALENTS	204,744	39,014
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,177,605</u>	<u>1,138,591</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,382,349</u>	<u>\$ 1,177,605</u>

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

(Concluded)

NUVOTON TECHNOLOGY CORPORATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

(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, 2015 and 2014.

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

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors and authorized for issue on January 28, 2016.

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

- a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the 2013 version of 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)

Rule No. 1030029342 and Rule No. 1030010325 issued by the FSC, stipulated that the Company should apply the 2013 version of IFRS, IAS, IFRIC and SIC (collectively, the “IFRSs”) endorsed by the FSC and the related amendments to the Guidelines Governing the Preparation of Financial Reports by Securities Issuers starting January 1, 2015.

Except for the following, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the 2013 IFRSs version did not have any material impact on the Company’s accounting policies:

- 1) IFRS 13 “Fair Value Measurement”

IFRS 13 establishes a single source of guidance for fair value measurements. It defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The disclosure requirements in IFRS 13 are more extensive, for example, quantitative and qualitative disclosures based on the three-level fair value hierarchy previously required for financial instruments only are extended by IFRS 13 to cover all assets and liabilities within its scope.

The fair value measurements under IFRS 13 are applied prospectively from January 1, 2015. Refer to Note 22 for related disclosures.

2) Amendment to IAS 1 “Presentation of Other Comprehensive Income”

The amendment to IAS 1 requires items of other comprehensive income to be grouped into those items that (1) will not be reclassified subsequently to profit or loss; and (2) may be reclassified subsequently to profit or loss. Income taxes on related items of other comprehensive income are grouped on the same basis. Under previous IAS 1, there were no such requirements.

The Company applies retrospectively the above amendments starting from 2015. Items not expected to be reclassified to profit or loss are remeasurements of the defined benefit plan. Items expected to be reclassified to profit or loss are the exchange differences on translation of foreign financial statements and the share of other comprehensive income of associates (except the share of the remeasurements of the defined benefit plan). The application of the above amendments did not result in any impact on the net profit, other comprehensive income, and total comprehensive income for the year.

3) Annual Improvements to IFRSs: 2009-2011 Cycle

Several standards including IFRS 1 “First-time Adoption of International Financial Reporting Standards”, IAS 1 “Presentation of Financial Statements”, IAS 16 “Property, Plant and Equipment”, IAS 32 “Financial Instruments: Presentation” and IAS 34 “Interim Financial Reporting” were amended in this annual improvement.

The amendments to IAS 1 clarify that an entity is required to present a balance sheet as at the beginning of the preceding period when a) it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassifies items in its financial statements, and b) the retrospective application, restatement or reclassification has a material effect on the information in the balance sheet at the beginning of the preceding period. The amendments also clarify that related notes are not required to accompany the balance sheet at the beginning of the preceding period.

The initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the 2013 IFRSs version in 2015 does not have material effect on the balance sheet. In preparing the financial statements for the year ended December 31, 2015, the Company was not required to present the balance sheet as of January 1, 2014 in accordance of the above amendments to IAS 1 and disclose related information in accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”.

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

The Company has not applied the following New IFRSs issued by the IASB but not yet endorsed by the FSC. As of the date the financial statements were authorized for issue, the FSC has not announced their effective dates.

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)
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

(Continued)

New IFRSs	Effective Date Announced by IASB (Note 1)
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 4)
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
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendment to IAS 1 “Disclosure Initiative”	January 1, 2016
Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”	January 1, 2016
Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”	January 1, 2016
Amendment to IAS 19 “Defined Benefit Plans: Employee Contributions”	July 1, 2014
Amendment to IAS 27 “Equity Method in Separate Financial Statements”	January 1, 2016
Amendment to IAS 36 “Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets”	January 1, 2014
Amendment to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”	January 1, 2014
IFRIC 21 “Levies”	January 1, 2014

(Concluded)

Note 1: Unless stated otherwise, the above New 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.

Note 4: To avoid enterprise adopt the amendment to IAS 28 twice in a short-term, IASB decided to postpone the amendment to IFRS 10 and IAS 28 announced in September 2014. The aforementioned amendment will be in defined until the study program of the entity method have been concluded.

The initial application of the above New IFRSs, whenever applied, would not have any material impact on the Company’s accounting policies, except for the following:

1) IFRS 9 “Financial Instruments”

With regards to financial assets, all recognized financial assets 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 accounting periods. All other financial assets are measured at their fair values at the end of reporting period.

2) Amendment to IAS 36 “Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets”

In issuing IFRS 13 “Fair Value Measurement”, the IASB made consequential amendment to the disclosure requirements in IAS 36 “Impairment of Assets”, introducing a requirement to disclose in every reporting period the recoverable amount of an asset or each cash-generating unit. The amendment clarifies that such disclosure of recoverable amounts is required only when an impairment loss has been recognized or reversed during the period. Furthermore, the Company is required to disclose the discount rate used in measurements of the recoverable amount based on fair value less costs of disposal measured using a present value technique.

3) Annual Improvements to IFRSs: 2010-2012 Cycle

The amended IFRS 8 requires an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have “similar economic characteristics”. The amendment also clarifies that a reconciliation of the total of the reportable segments’ assets to the entity’s assets should only be provided if the segments’ assets are regularly provided to the chief operating decision-maker.

IFRS 13 was amended to clarify that the issuance of IFRS 13 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of not discounting is immaterial.

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

4) 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 if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

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

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

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

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

- a) In which the intangible asset is expressed as a measure of revenue (for example, the contract that specifies the entity’s use of the intangible asset will expire upon achievement of a revenue threshold); or

- b) When it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

An entity should apply the aforementioned amendments prospectively for annual periods beginning on or after the effective date.

6) IFRS 15 “Revenue from Contracts with Customers”

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18 “Revenue”, IAS 11 “Construction Contracts” and a number of revenue-related interpretations.

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

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

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

7) Annual Improvements to IFRSs: 2012-2014 Cycle

IAS 19 was amended to clarify that the depth of the market for high quality corporate bonds used to estimate discount rate for post-employment benefits should be assessed by the market of the corporate bonds denominated in the same currency as the benefits to be paid, i.e. assessed at currency level (instead of country or regional level).

8) Amendment to IAS 1 “Disclosure Initiative”

The amendment clarifies that the financial statements should be prepared for the purpose of disclosing material information. To improve the understandability of its financial statements, the Company should disaggregate the disclosure of material items into their different natures or functions, and disaggregate material information from immaterial information. The amendment further clarifies that the Company should consider the understandability and comparability of its financial statements to determine a systematic order in presenting its footnotes.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

Basis of Preparation

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

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

Classification of Current and Non-current Assets and Liabilities

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

Foreign Currencies

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

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

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

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

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

Cash Equivalents

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

Financial Instruments

a. Financial assets

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

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

1) Loans and receivables

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

2) Financial assets at fair value through profit or loss

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

3) Available-for-sale financial assets

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

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

b. Impairment of financial assets

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

The objective evidence of impairment for trade receivables could include the Company's past experience of collecting payments, the delayed payments in past period, the information which correlates with default on receivables, as well as the estimation of future cash flows. The amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized

impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

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

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

c. Derecognition of financial assets

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

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

d. Financial liabilities

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

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

e. Derecognition of financial liabilities

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

f. Derivative financial instruments

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

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

Inventories

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

Investments Accounted for Using Equity Method

a. Investment in subsidiaries

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

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

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

b. Investment in associates

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

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

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

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

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

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

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

Property, Plant and Equipment

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

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

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

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

Intangible Assets

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

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

Impairment of Tangible and Intangible Assets

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

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

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

Products Guarantee Based on Commitment

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

Revenue Recognition

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

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

Leasing

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

Employee Benefits

- a. Short-term employee benefits

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

- b. Retirement benefits

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

Defined benefit costs (including service cost, net interest and rereasurement) 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. Rereasurement, 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. Rereasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

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

Taxation

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

a. Current tax

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

b. Deferred tax

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

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

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

a. Valuation of inventory

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

b. Deferred tax

The realizability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available. While assessing the realizability of deferred income tax assets, the hypothesis of the critical accounting judgments and estimation of the Company's management includes increase in expected sale revenues and profit rate, tax-exemption period, usable investment credits, and tax plan, etc. Any changes of global economic environment, industry environment and law may cause a great adjustment of deferred tax assets.

c. Recognition and measurement of defined benefit plans

Net defined benefit liabilities and the resulting defined benefit cost under defined benefit pension plans are calculated using the Projected Unit Credit Method. Actuarial assumptions comprise the discount rate, rate of employee turnover, and future salary increase rate. Changes in economic circumstances and market conditions will affect these assumptions and may have a material impact on the amount of the expense and the liability.

d. 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

	<u>December 31</u>	
	2015	2014
Cash and cash in bank	\$ 1,359,149	\$ 1,164,105
Repurchase agreements collateralized by bonds	<u>23,200</u>	<u>13,500</u>
	<u>\$ 1,382,349</u>	<u>\$ 1,177,605</u>

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

	<u>December 31</u>	
	2015	2014
Time deposits	<u>\$ 61,398</u>	<u>\$ 60,243</u>

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>December 31</u>	
	2015	2014
<u>Financial liabilities at FVTPL - current</u>		
Foreign exchange forward contracts	\$ <u>1,379</u>	\$ <u>5,641</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, 2015</u>			
Sell forward exchange contracts	USD/NTD	2016.01.05-2016.02.04	USD10,000/NTD326,871
<u>December 31, 2014</u>			
Sell forward exchange contracts	USD/NTD	2015.01.08-2015.02.26	USD15,300/NTD478,604

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

8. NOTES AND ACCOUNTS RECEIVABLE

	<u>December 31</u>	
	2015	2014
Notes receivable	\$ 14	\$ 68
Accounts receivable	360,287	452,456
Less: Allowance for doubtful accounts	<u>(11,992)</u>	<u>(9,853)</u>
	<u>\$ 348,309</u>	<u>\$ 442,671</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:

	<u>December 31</u>	
	2015	2014
Not overdue	\$ 357,619	\$ 444,546
Overdue under 30 days	2,682	7,978
Overdue 31-90 days	-	-
Overdue 91 days and longer	<u>-</u>	<u>-</u>
	<u>\$ 360,301</u>	<u>\$ 452,524</u>

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

	For the Year Ended December 31	
	2015	2014
Balance at January 1	\$ 9,853	\$ 11,756
Impairment losses (reversed)	<u>2,139</u>	<u>(1,903)</u>
Balance at December 31	<u>\$ 11,992</u>	<u>\$ 9,853</u>

9. INVENTORIES

	December 31	
	2015	2014
Raw materials and supplies	\$ 74,558	\$ 80,810
Work-in-process	750,865	535,633
Finished goods	198,709	167,123
Inventories in transit	<u>1,083</u>	<u>-</u>
	<u>\$ 1,025,215</u>	<u>\$ 783,566</u>

- a. As of December 31, 2015 and 2014, the allowance for inventory devaluation was \$322,784 thousand and \$329,605 thousand, respectively.
- b. The cost of goods sold for the years ended December 31, 2015 and 2014 was \$4,255,699 thousand and \$3,922,800 thousand, respectively. The cost of goods sold included inventory write-downs and obsolescence and abandonment of inventories in the amounts of \$21,156 thousand loss and \$20,543 thousand gain for the years ended December 31, 2015 and 2014, respectively. In 2014, the write-downs were reversed as the result of controlling internal inventory management effectively and improving slow moving inventory.

10. FINANCIAL ASSETS MEASURED AT COST, NON-CURRENT

	December 31	
	2015	2014
<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.	30,000	40,000
Nyquest Technology Co., Ltd.	<u>44,691</u>	<u>44,691</u>
	<u>\$ 355,184</u>	<u>\$ 365,184</u>

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

The Company held a 27% ownership interest of Nyquest Technology Co., Ltd. as of January 1, 2014, and accounted under equity method. In 2014, the Company sold its partial interest in Nyquest Technology Co., Ltd. and the partial interest was sold to subsidiaries, Song Yong Investment Corporation, please refer to Note 23. For the year ended December 31, 2014, the ownership interest was decreased under 20%, accordingly the Company lost its significant influence. The remaining interest \$44,691 thousand at fair value was recognized as a financial asset measured at cost. There was \$9,262 thousand of gain on disposal of investments.

11. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	<u>December 31</u>	
	<u>2015</u>	<u>2014</u>
Investments in subsidiaries	\$ <u>1,109,330</u>	\$ <u>1,047,632</u>

	<u>December 31</u>			
	<u>2015</u>		<u>2014</u>	
	<u>Carrying Value</u>	<u>Ownership Percentage</u>	<u>Carrying Value</u>	<u>Ownership Percentage</u>
<u>Non-publicly traded companies</u>				
Marketplace Management Ltd. (“MML”)	\$ 82,680	100	\$ 84,062	100
Pigeon Creek Holding Co., Ltd. (“PCH”)	177,861	100	167,384	100
Nuvoton Investment Holding Ltd. (“NIH”)	290,441	100	315,803	100
Nuvoton Electronics Technology (H.K.) Limited (“NTHK”)	460,482	100	453,989	100
Song Yong Investment Corporation (“SYI”)	27,518	100	26,394	100
Techdesign Corporation (“Techdesign”)	40,967	100	-	-
Nuvoton Technology India Private Ltd. (“NTIPL”)	<u>29,381</u>	100	<u>-</u>	<u>-</u>
	<u>\$ 1,109,330</u>		<u>\$ 1,047,632</u>	

In 2015 and 2014, MML raised additional capital of \$3,507 thousand and \$3,341 thousand through issuance of shares for cash, which the Company bought entirely, respectively. In 2015, NIH reduced its capital of \$42,198 thousand to return the Company.

In April 2014, SYI was incorporated by the Company. As of December 31, 2015, the balance of SYI’s capital account authorized to \$100,000 thousand and issued to \$38,500 thousand.

In March 2015, Techdesign was incorporated by the Company. As of December 31, 2015, the balance of Techdesign’s capital account authorized to \$50,000 thousand and issued to \$50,000 thousand.

In 2012, the Company’s board of directors resolved to set up NTIPL. The Company has injected the capital in March 2015. As of December 31, 2015, the balance of NTIPL’s capital account amount to \$30,211 thousand.

12. PROPERTY, PLANT AND EQUIPMENT

	<u>December 31</u>				
	<u>2015</u>		<u>2014</u>		
Land and buildings	\$ 80,695		\$ 86,251		
Machinery and equipment	267,509		245,579		
Other equipment	52,694		55,024		
Construction in progress and prepayments for purchase of equipment	<u>9,341</u>		<u>1,466</u>		
	<u>\$ 410,239</u>		<u>\$ 388,320</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, 2015	\$ 3,455,473	\$ 11,483,572	\$ 158,215	\$ 1,466	\$ 15,098,726
Additions	12,434	104,408	12,621	9,341	138,804
Disposals	(3,141)	(161,668)	(2,740)	-	(167,549)
Reclassified	42	1,242	182	(1,466)	-
Balance at December 31, 2015	<u>3,464,808</u>	<u>11,427,554</u>	<u>168,278</u>	<u>9,341</u>	<u>15,069,981</u>
<u>Accumulated depreciation and impairment</u>					
Balance at January 1, 2015	3,369,222	11,237,993	103,191	-	14,710,406
Disposals	(3,141)	(161,668)	(2,711)	-	(167,520)
Depreciation expenses	18,032	83,720	15,104	-	116,856
Reclassified	-	-	-	-	-
Balance at December 31, 2015	<u>3,384,113</u>	<u>11,160,045</u>	<u>115,584</u>	<u>-</u>	<u>14,659,742</u>
Carrying amount at December 31, 2015	<u>\$ 80,695</u>	<u>\$ 267,509</u>	<u>\$ 52,694</u>	<u>\$ 9,341</u>	<u>\$ 410,239</u>
<u>Cost</u>					
Balance at January 1, 2014	\$ 3,442,475	\$ 11,667,125	\$ 131,621	\$ 182	\$ 15,241,403
Additions	22,286	55,564	17,917	1,284	97,051
Disposals	(155)	(239,017)	(556)	-	(239,728)
Reclassified	(9,133)	(100)	9,233	-	-
Balance at December 31, 2014	<u>3,455,473</u>	<u>11,483,572</u>	<u>158,215</u>	<u>1,466</u>	<u>15,098,726</u>
<u>Accumulated depreciation and impairment</u>					
Balance at January 1, 2014	3,353,418	11,389,857	90,857	-	14,834,132
Disposals	(155)	(239,002)	(543)	-	(239,700)
Depreciation expenses	15,959	87,238	12,777	-	115,974
Reclassified	-	(100)	100	-	-
Balance at December 31, 2014	<u>3,369,222</u>	<u>11,237,993</u>	<u>103,191</u>	<u>-</u>	<u>14,710,406</u>
Carrying amount at December 31, 2014	<u>\$ 86,251</u>	<u>\$ 245,579</u>	<u>\$ 55,024</u>	<u>\$ 1,466</u>	<u>\$ 388,320</u>

13. INTANGIBLE ASSETS

	<u>December 31</u>	
	<u>2015</u>	<u>2014</u>
Deferred technical assets	<u>\$ 197,238</u>	<u>\$ 252,274</u>

	Deferred Technical Assets
<u>Cost</u>	
Balance at January 1, 2015	\$ 755,331
Addition	<u>9,593</u>
Balance at December 31, 2015	<u>764,924</u>
<u>Accumulated amortization and impairment</u>	
Balance at January 1, 2015	503,057
Amortization expenses	<u>64,629</u>
Balance at December 31, 2015	<u>567,686</u>
Carrying amount at December 31, 2015	<u>\$ 197,238</u>
<u>Cost</u>	
Balance at January 1, 2014	\$ 609,317
Addition	<u>146,014</u>
Balance at December 31, 2014	<u>755,331</u>
<u>Accumulated amortization and impairment</u>	
Balance at January 1, 2014	427,709
Amortization expenses	<u>75,348</u>
Balance at December 31, 2014	<u>503,057</u>
Carrying amount at December 31, 2014	<u>\$ 252,274</u>

14. OTHER PAYABLES

	<u>December 31</u>	
	2015	2014
Payable for salaries or employee benefits	\$ 335,748	\$ 240,518
Payable for businesses	142,104	128,234
Payable for royalties	67,136	81,378
Payable for purchase of equipment	43,730	38,726
Others	<u>169,729</u>	<u>158,388</u>
	<u>\$ 758,447</u>	<u>\$ 647,244</u>

15. RETIREMENT BENEFIT PLANS

a. Defined contribution plan

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

b. Defined benefit plan

The defined benefit plan adopted by the Company in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. In 2015 and 2014, the Company contributed amounts equal to 15% and 2%, respectively, of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Company has no right to influence the investment policy and strategy.

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

	December 31	
	2015	2014
Present value of defined benefit obligation	\$ 854,733	\$ 830,433
Fair value of plan assets	<u>(476,000)</u>	<u>(415,669)</u>
Net defined benefit liability	<u>\$ 378,733</u>	<u>\$ 414,764</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, 2014	<u>\$ 854,371</u>	<u>\$ (455,065)</u>	<u>\$ 399,306</u>
Service cost			
Current service cost	10,516	-	10,516
Net interest expense (income)	<u>18,892</u>	<u>(5,568)</u>	<u>13,324</u>
Recognized in profit or loss	<u>29,408</u>	<u>(5,568)</u>	<u>23,840</u>
Remeasurement			
Actuarial (gain) loss - experience adjustments	11,147	-	11,147
Return on plan assets	<u>-</u>	<u>(5,013)</u>	<u>(5,013)</u>
Recognized in other comprehensive income	<u>11,147</u>	<u>(5,013)</u>	<u>6,134</u>
Contributions from the employer	-	(11,722)	(11,722)
Plan assets paid	(61,699)	61,699	-
Payment on accounts	<u>(2,794)</u>	<u>-</u>	<u>(2,794)</u>
Balance at December 31, 2014	830,433	(415,669)	414,764
Service cost			
Current service cost	9,802	-	9,802
Net interest expense (income)	<u>18,324</u>	<u>(9,124)</u>	<u>9,200</u>
Recognized in profit or loss	<u>28,126</u>	<u>(9,124)</u>	<u>19,002</u>
Remeasurement			
Actuarial (gain) loss - realized rate of return more than the discount rate	-	(2,624)	(2,624)

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability (Asset)
Actuarial (gain) loss - changes in financial assumptions	\$ 32,084	\$ -	\$ 32,084
Actuarial (gain) loss - experience adjustments	<u>184</u>	<u>-</u>	<u>184</u>
Recognized in other comprehensive income	<u>32,268</u>	<u>(2,624)</u>	<u>29,644</u>
Contributions from the employer	-	(84,677)	(84,677)
Plan assets paid	<u>(36,094)</u>	<u>36,094</u>	<u>-</u>
Balance at December 31, 2015	<u>\$ 854,733</u>	<u>\$ (476,000)</u>	<u>\$ 378,733</u> (Concluded)

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

	For the Year Ended December 31	
	2015	2014
Analysis by function		
Operating costs	\$ 10,700	\$ 13,241
Selling expenses	186	538
General and administrative expenses	1,626	2,037
Research and development expenses	<u>6,490</u>	<u>8,024</u>
	<u>\$ 19,002</u>	<u>\$ 23,840</u>

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

- 1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the 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	
	2015	2014
Discount rate(s)	1.90%	2.25%
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, 2015
Discount rate(s)	
0.25% increase	<u>\$ (23,097)</u>
0.25% decrease	<u>\$ 24,032</u>
Expected rate(s) of salary increase	
0.25% increase	<u>\$ 24,027</u>
0.25% decrease	<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	
	2015	2014
The expected contributions to the plan for the next year	<u>\$ 84,672</u>	<u>\$ 11,800</u>
The average duration of the defined benefit obligation	11.2 years	11.6 years

16. EQUITY

a. Common stock

	December 31	
	2015	2014
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 (dollar)	<u>\$ 10</u>	<u>\$ 10</u>

As of December 31, 2015 and 2014, the balance of the Company's capital account amounted to \$2,075,544 thousand, divided into 207,544 thousand common shares at par \$10 per share.

b. Capital surplus

	December 31	
	2015	2014
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to capital*</u>		
Additional paid-in capital	\$ 63,485	\$ 63,485
<u>May not be used for any purpose</u>		
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

According to the unrevised 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) in the following order:

- 1) 1% to 2% as remuneration to directors and supervisors;
- 2) 10% to 15% as bonus to employees;
- 3) The remaining amount as bonus to shareholders. Not less than 10% of the total shareholders bonus shall be distributed in form of cash.

"Employees" referred to in item 2 of the preceding paragraph, when distributing the stock bonus, include the employees of subsidiaries of the Company meeting certain criteria. The board of directors is authorized to determine the above "certain criteria" or the board of directors may authorize the Chairman to ratify the above "certain criteria".

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 consequential amendments to the Company's Articles of Incorporation had been proposed by the Company's board of directors on January 28, 2016 and are subject to the resolution of the shareholders in their meeting to be held on June 15, 2016. For information about the accrual basis of the employees' compensation and remuneration to directors and supervisors and the actual appropriations, please refer to Note 18 employee benefits expense.

Under Rule No. 1010012865 and Rule No. 1010047490 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs", the Company should appropriate or reverse to a special reserve. Any special reserve appropriated may be reversed to the extent that the net debit balance reverses and thereafter distributed.

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.

The appropriations of the Company's earnings for 2014 and 2013 had been approved in the shareholders' meetings on June 10, 2015 and June 12, 2014, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For Year 2014	For Year 2013	For Year 2014	For Year 2013
Legal reserve	\$ 34,309	\$ 25,922		
Special reserve	-	(76,488)		
Cash dividends	<u>249,065</u>	<u>249,065</u>	\$ 1.20	\$ 1.20
	<u>\$ 283,374</u>	<u>\$ 198,499</u>		

The appropriations of the Company's earnings for 2015 had been approved in the Board of Directors' meeting on January 28, 2016. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 46,902	
Cash dividends	373,598	\$ 1.8

The appropriations of earnings for 2015 will be presented for approval in the shareholders' meeting to be held on June 15, 2016 (expected).

d. Other equity items

The exchange differences arising on translation of foreign operations' net assets from functional currency to the Company's presentation currency (New Taiwan dollar) are recognized directly in other comprehensive income.

17. 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	
	2015	2014
Current income tax	\$ 67,000	\$ 57,000
Adjustments for prior year's tax	(6,713)	1,638
Deferred tax	<u>20,000</u>	<u>8,000</u>
Income tax expense recognized in profit or loss	<u>\$ 80,287</u>	<u>\$ 66,638</u>

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

	For the Year Ended December 31	
	2015	2014
Profit before tax from continuing operations	\$ 93,000	\$ 70,000
Adjustments		
Permanent differences	(15,000)	(7,000)
Tax-exempt income	(11,000)	(6,000)
Additional income tax on unappropriated earnings	5,358	6,173
Current income tax credit	<u>(5,358)</u>	<u>(6,173)</u>
Current income tax	67,000	57,000
Deferred income tax	20,000	8,000
Adjustment for prior years' tax	<u>(6,713)</u>	<u>1,638</u>
Income tax expense recognized in profit or loss	<u>\$ 80,287</u>	<u>\$ 66,638</u>

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

As the status of 2015 appropriations of earnings was not yet approved in the shareholders' meeting, the potential income tax consequences of 2015 unappropriated earnings were not reliably determinable.

- c. Current tax liabilities

	December 31	
	2015	2014
Income tax payable	<u>\$ 52,885</u>	<u>\$ 70,640</u>

- d. Deferred income tax assets

	December 31	
	2015	2014
Deferred income tax assets		
Unrealized investment loss	\$ 33,000	\$ 43,000
Allowance for loss on inventories and others	<u>61,000</u>	<u>61,000</u>
	<u>\$ 94,000</u>	<u>\$ 104,000</u>

- e. Information about unused tax-exemption

As of December 31, 2015, 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:

	<u>December 31</u>	
	<u>2015</u>	<u>2014</u>
Unappropriated earnings Generated on and after January 1, 1998	<u>\$ 627,654</u>	<u>\$ 471,650</u>
Imputation credits account	<u>\$ 148,632</u>	<u>\$ 87,731</u>

The creditable ratio for distribution of earnings for the years ended December 31, 2015 and 2014 were 23.68% (estimate) and 24.30%, respectively.

g. Income tax assessments

The Company's tax returns through 2013 have been assessed by the tax authorities.

18. EMPLOYEE BENEFITS EXPENSE, DEPRECIATION, AND AMORTIZATION

	<u>For the Year Ended December 31</u>					
	<u>2015</u>			<u>2014</u>		
	<u>Classified as Operating Costs</u>	<u>Classified as Operating Expenses</u>	<u>Total</u>	<u>Classified as Operating Costs</u>	<u>Classified as Operating Expenses</u>	<u>Total</u>
Employee benefits expense						
Short-term benefits	<u>\$ 696,071</u>	<u>\$ 851,838</u>	<u>\$ 1,547,909</u>	<u>\$ 672,946</u>	<u>\$ 777,987</u>	<u>\$ 1,450,933</u>
Post-employment benefits	<u>\$ 34,574</u>	<u>\$ 40,157</u>	<u>\$ 74,731</u>	<u>\$ 36,605</u>	<u>\$ 41,243</u>	<u>\$ 77,848</u>
Depreciation	<u>\$ 92,171</u>	<u>\$ 24,685</u>	<u>\$ 116,856</u>	<u>\$ 93,856</u>	<u>\$ 22,118</u>	<u>\$ 115,974</u>
Amortization	<u>\$ 33,290</u>	<u>\$ 31,339</u>	<u>\$ 64,629</u>	<u>\$ 36,737</u>	<u>\$ 38,611</u>	<u>\$ 75,348</u>

The bonus to employees and remuneration to directors and supervisors was \$42,341 thousand for the year ended December 31, 2014, representing 17% of the base net profit and after considering factors such as statutory surplus reserve, etc. To be in compliance with the Company Act as amended in May 2015, the proposed amended Articles of Incorporation of the Company stipulate to distribute employees' compensation and remuneration to directors and supervisors at the rates no less than 1% and no higher than 1%, respectively, of profit before income tax, employees' compensation, and remuneration to directors and supervisors. For the year ended December 31, 2015, the employees' compensation and the remuneration to directors and supervisors were \$35,439 thousand and \$5,906 thousand, respectively, representing 6% and 1%, respectively, of the aforementioned profit base. The amounts have been proposed by the Company's board of directors on January 28, 2016 and will be presented for approval in the shareholders' meeting to be held on June 15, 2016 (expected). Material differences between such estimated amounts and the amounts proposed by the board of directors on or before the date the annual financial statements are authorized for issue are adjusted in the year the compensation and remuneration are recognized. If there is a change in the proposed amounts after the annual financial statements were authorized for issue, the differences are recorded as a change in accounting estimate.

The bonus to employees and remuneration to directors and supervisors for 2014 and 2013 which have been approved in the shareholders' meetings on June 10, 2015 and June 12, 2014, respectively, were as follows:

	For the Year Ended December 31	
	2014	2013
Bonus to employees	\$ 37,360	\$ 37,360
Remuneration of directors and supervisors	4,981	4,981

The bonus to employees and the remuneration to directors and supervisors approved in the shareholders' meetings on June 10, 2015 and June 12, 2014 and the amounts recognized in the financial statements were as follows:

	For the Year Ended December 31			
	2014		2013	
	Bonus to Employees	Remuneration of Directors and Supervisors	Bonus to Employees	Remuneration of Directors and Supervisors
Amounts approved in shareholders' meetings	\$ 37,360	\$ 4,981	\$ 37,360	\$ 4,981
Amounts recognized in respective financial statements	<u>37,360</u>	<u>4,981</u>	<u>31,133</u>	<u>4,151</u>
Difference	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,227</u>	<u>\$ 830</u>

The differences in 2013 were adjusted to profit and loss for the year ended December 31, 2014.

Information on the bonus to employees and remuneration to directors and supervisors approved by the shareholders' meeting is available on the Market Observation Post System website of the Taiwan Stock Exchange.

19. 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, 2015</u>			
Net profit	\$ <u>469,022</u>		
Basic EPS			
Earnings used in the computation of basic EPS	469,022	207,554	\$ 2.26
Effect of potentially dilutive ordinary shares			
Employee compensation or bonus	<u>-</u>	<u>1,748</u>	
Diluted EPS			
Earnings used in the computation of diluted EPS	<u>\$ 469,022</u>	<u>209,302</u>	2.24

(Continued)

	Amounts (Numerator)	Shares (Denominator) (In Thousands)	EPS (NT\$)
<u>For the year ended December 31, 2014</u>			
Net profit	<u>\$ 343,090</u>		
Basic EPS			
Earnings used in the computation of basic EPS	343,090	207,554	\$ 1.65
Effect of potentially dilutive ordinary shares			
Employee bonus	<u> -</u>	<u> 1,784</u>	
Diluted EPS			
Earnings used in the computation of diluted EPS	<u>\$ 343,090</u>	<u> 209,338</u>	1.64 (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 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.

20. OPERATING LEASE ARRANGEMENTS

The Company as Lessee

a. Lease arrangements

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

The Company leased a land from Taiwan Sugar Corporation under a twenty-year term from October 2014 to September 2034, which is allowed to extend upon the expiration of lease. The chairman of the Company is a joint guarantor of such lease; please refer to Note 23.

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

As of December 31, 2015 and 2014, deposits paid under operating leases amounted to \$30,803 thousand and \$30,686 thousand, respectively.

b. Prepayments for lease obligations

	<u>December 31</u>	
	2015	2014
Current (recorded as "other current assets")	\$ 3,140	\$ 3,393
Non-current (recorded as "other non-current assets")	<u>42,273</u>	<u>44,655</u>
	<u>\$ 45,413</u>	<u>\$ 48,048</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	
	2015	2014
Lease expenditure	<u>\$ 37,256</u>	<u>\$ 32,060</u>

21. CAPITAL MANAGEMENT

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

22. FINANCIAL INSTRUMENT

a. Categories of financial instruments

	December 31			
	2015		2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Financial assets</u>				
Loans and receivables				
Cash and cash equivalents	\$ 1,382,349	\$ 1,382,349	\$ 1,177,605	\$ 1,177,605
Notes and accounts receivable	348,309	348,309	442,671	442,671
Account receivable due from related parties	122,670	122,670	99,067	99,067
Other receivables	3,344	3,344	2,773	2,773
Refundable deposits	64,380	64,380	63,341	63,341
Available-for-sale financial assets				
Financial assets measured at cost	355,184	354,949	365,184	365,034
<u>Financial liabilities</u>				
Measured at amortized cost				
Accounts payable	664,834	664,834	537,810	537,810
Other payables	756,270	756,270	645,383	645,383
Other payables due from related parties	99,150	99,150	104,834	104,834
Guarantee deposits (recorded in other non-current liabilities)	1,862	1,862	1,757	1,757
Long-term contract payable (recorded in other non-current liabilities)	34,914	32,790	44,885	42,540
Financial liabilities at fair value through profit or loss				
Derivative financial instruments	1,379	1,379	5,641	5,641

b. Fair value information

- 1) The fair value measurements are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and the significance in its entirety, which are described as follows:
 - a) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
 - b) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
 - c) Level 3 inputs are unobservable inputs for the asset or liability.
- 2) Fair value measurements recognized in the balance sheets

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

- 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.

c. Financial risk management objectives and policies

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

- 1) Market risk

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

- a) Foreign currency risk

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

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are set out in Note 26.

The sensitivity analysis included only outstanding foreign currency denominated monetary items at the end of the reporting period and an increase in net income and equity if New Taiwan dollars strengthen by 1% against foreign currencies. For a 1% weakening of New Taiwan dollars against the relevant currency, there would be impact on net income in the amounts of \$1,673 thousand and \$2,894 thousand decrease for the years ended December 31, 2015 and 2014, respectively. The amounts included above for a 1% weakening of New Taiwan dollars against the relevant currency is without considering the impact of hedge contracts and hedged item.

b) Interest rate risk

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

As of December 31, 2015 and 2014, the carrying amount of the Company's floating rate deposits with exposure to interest rates was \$5,521 thousand and \$7,463 thousand, respectively. The sensitivity analyses below were determined based on the Company's exposure to interest rates for fair value of variable-rate derivative instruments at the end of the reporting period. If interest rates had been higher by one percentage point, the Company's cash flows for the year ended December 31, 2015 would have increased by \$55 thousand.

2) Credit risk

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

3) Liquidity risk

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

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

	December 31, 2015			Total
	Within 1 Year	1-2 Years	Over 2 Years	
<u>Non-derivative financial liabilities</u>				
Non-interest bearing	<u>\$ 1,520,254</u>	<u>\$ 11,127</u>	<u>\$ 21,663</u>	<u>\$ 1,553,044</u>
	December 31, 2014			Total
	Within 1 Year	1-2 Years	Over 2 Years	
<u>Non-derivative financial liabilities</u>				
Non-interest bearing	<u>\$ 1,288,027</u>	<u>\$ 10,923</u>	<u>\$ 31,617</u>	<u>\$ 1,330,567</u>

23. RELATED PARTY TRANSACTIONS

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

<u>Related Party</u>	<u>Relationship with the Company</u>
Winbond Electronics Corporation	Parent company
Nuvoton Electronics Technology (H.K.) Limited (“NTHK”)	Subsidiary
Nuvoton Electronics Technology (Shenzhen) Limited (“NTSZ”)	Subsidiary
Nuvoton Technology Corporation America (“NTCA”)	Subsidiary
Nuvoton Technology Israel Ltd. (“NTIL”)	Subsidiary
Song Yong Investment Corporation (“SYI”)	Subsidiary
Techdesign Corporation (“Techdesign”)	Subsidiary
Winbond Electronics Corporation Japan (“WECJ”)	Associate
Nyquest Technology Co., Ltd. (“Nyquest”)	Related party in substance (Note 1)
Walton Advanced Engineering Inc.	Related party in substance
Capella Microsystems Inc.	Related party in substance (Note 2)
Chin Cherng Construction Co., Ltd.	Related party in substance

Note 1: The ownership interest of Nyquest was decreased under 20%, accordingly, the Company lost its significant influence. Since December 2014, the relationship between Nyquest and the Company has changed from Associate to related party in substance.

Note 2: Capella Microsystems Inc. was not the company’s related party in substance from January 2015.

- b. Operating activities

	<u>For the Year Ended December 31</u>	
	<u>2015</u>	<u>2014</u>
1) Operating revenue		
Subsidiary	\$ 3,005,168	\$ 2,502,128
Related party in substance	214,017	70,049
Associate	<u>90,300</u>	<u>316,672</u>
	<u>\$ 3,309,485</u>	<u>\$ 2,888,849</u>
2) Purchase		
Parent company	\$ 131,520	\$ 59,949
Associate	-	1,215
Related party in substance	<u>-</u>	<u>36</u>
	<u>\$ 131,520</u>	<u>\$ 61,200</u>
3) General and administrative expenses		
Subsidiary	\$ 60,529	\$ 60,844
Related party in substance	10,331	7,318
Parent company	<u>1,715</u>	<u>25</u>
	<u>\$ 72,575</u>	<u>\$ 68,187</u>

	For the Year Ended December 31	
	2015	2014
4) Research and development expenses		
Subsidiary	\$ 725,352	\$ 776,326
Parent company	<u>74</u>	<u>223</u>
	<u>\$ 725,426</u>	<u>\$ 776,549</u>
5) Other income		
Related party in substance	\$ 7,168	\$ -
Associate	<u>-</u>	<u>659</u>
	<u>\$ 7,168</u>	<u>\$ 659</u>
	December 31	
	2015	2014
6) Accounts receivable due from related parties		
Subsidiary	\$ 66,278	\$ 50,736
Related party in substance	42,476	36,356
Associate	<u>13,916</u>	<u>11,975</u>
	<u>\$ 122,670</u>	<u>\$ 99,067</u>
7) Other receivables		
Subsidiary	\$ 788	\$ -
Parent company	<u>-</u>	<u>53</u>
	<u>\$ 788</u>	<u>\$ 53</u>
8) Refundable deposits		
Related party in substance	<u>\$ 1,722</u>	<u>\$ 1,722</u>
9) Accounts payable to related parties		
Parent company	\$ 19,882	\$ 6,839
Related party in substance	<u>-</u>	<u>256</u>
	<u>\$ 19,882</u>	<u>\$ 7,095</u>
10) Other payables		
Subsidiary	\$ 99,150	\$ 104,821
Related party in substance	<u>-</u>	<u>13</u>
	<u>\$ 99,150</u>	<u>\$ 104,834</u>

	December 31	
	2015	2014
11) Other current liabilities		
Subsidiary	\$ <u> -</u>	\$ <u> 18,256</u>
12) Guarantee deposits		
Parent company	\$ 545	\$ 545
Subsidiary	<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) Disposal of investments accounted for using equity method

Relationship with the Company	List Item	Share (Thousand)	Transaction Objective	Selling Price	Gain on Disposal
Subsidiary	Investments accounted for using equity method	1,500	Stock of Nyquest Technology Co., Ltd.	<u>\$ 37,388</u>	<u>\$ 12,875</u>

Please refer to Note 10.

14) Guarantee

As of December 31, 2015, the chairman of the Company is a joint guarantor of the land-lease from Taiwan Sugar Corporation. Please refer to Note 20.

15) Compensation of key management personnel

	For the Year Ended December 31	
	2015	2014
Short-term employment benefits	\$ 29,837	\$ 32,096
Post-employment benefits	<u> 495</u>	<u> 546</u>
	<u>\$ 30,332</u>	<u>\$ 32,642</u>

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

24. PLEDGED AND COLLATERALIZED ASSETS

Please refer to Note 6.

25. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

As of December 31, 2015 amounts available under unused letters of credit were approximately JPY13,600 thousand.

26. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

	December 31					
	2015			2014		
	Foreign Currencies (Thousand)	Exchange Rate	New Taiwan Dollars (Thousand)	Foreign Currencies (Thousand)	Exchange Rate	New Taiwan Dollars (Thousand)
<u>Financial assets</u>						
Monetary items						
USD	\$ 21,393	32.825	\$ 702,232	\$ 23,084	31.65	\$ 730,603
RMB	1,576	4.995	7,870	2,022	5.092	10,298
ILS	11,950	8.4085	100,480	12,260	8.1478	99,892
Investments accounted for using equity method						
USD	14,100	32.825	462,836	14,393	31.65	455,547
INR	59,236	0.496	29,381	-	-	-
<u>Financial liabilities</u>						
Monetary items						
USD	16,504	32.825	541,738	14,054	31.65	444,796
ILS	11,792	8.4085	99,150	12,399	8.1478	101,022

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

	For the Year Ended December 31			
	2015		2014	
Foreign Currencies	Exchange Rate	Net Foreign Exchange Gain (Loss)	Exchange Rate	Net Foreign Exchange Gain (Loss)
USD	31.74 (USD:NTD)	\$ 19,988	30.31 (USD:NTD)	\$ 24,786
RMB	5.0334 (RMB:NTD)	(154)	4.9316 (RMB:NTD)	435
ILS	8.1679 (ILS:NTD)	(33)	8.4842 (ILS:NTD)	(2,257)
		<u>\$ 19,500</u>		<u>\$ 22,964</u>

27. OPERATING SEGMENTS INFORMATION

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