

# **Winbond Electronics 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  
Winbond Electronics Corporation

We have audited the accompanying balance sheets of Winbond Electronics 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 29, 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 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.*

# WINBOND ELECTRONICS CORPORATION

## BALANCE SHEETS

DECEMBER 31, 2015 AND 2014

(In Thousands of New Taiwan Dollars)

ASSETS	2015		2014	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Note 6)	\$ 3,634,615	6	\$ 4,146,238	7
Available-for-sale financial assets, current (Note 8)	2,441,832	4	2,826,103	4
Held-to-maturity financial assets, current (Note 9)	99,900	-	-	-
Notes and accounts receivable, net (Note 10)	2,802,110	5	3,535,090	6
Accounts receivable due from related parties, net (Note 27)	1,320,712	2	983,807	2
Other receivables (Note 11)	514,417	1	250,428	-
Inventories (Note 12)	7,514,792	13	5,534,586	9
Other current assets	<u>1,016,814</u>	<u>2</u>	<u>852,710</u>	<u>1</u>
Total current assets	<u>19,345,192</u>	<u>33</u>	<u>18,128,962</u>	<u>29</u>
<b>NON-CURRENT ASSETS</b>				
Held-to-maturity financial assets, non-current (Note 9)	-	-	101,840	-
Financial assets measured at cost, non-current (Note 13)	80,161	-	40,161	-
Investments accounted for using equity method (Note 14)	6,049,338	10	6,576,196	11
Property, plant and equipment (Note 15)	31,195,173	53	33,304,147	54
Intangible assets (Note 16)	76,371	-	52,000	-
Deferred income tax assets (Note 21)	2,527,000	4	3,146,000	5
Other non-current assets (Notes 6 and 11)	<u>223,037</u>	<u>-</u>	<u>661,584</u>	<u>1</u>
Total non-current assets	<u>40,151,080</u>	<u>67</u>	<u>43,881,928</u>	<u>71</u>
<b>TOTAL</b>	<u>\$ 59,496,272</u>	<u>100</u>	<u>\$ 62,010,890</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term borrowings (Note 17)	\$ -	-	\$ 390,213	1
Financial liabilities at fair value through profit or loss, current (Note 7)	21,048	-	11,253	-
Notes payable	519,500	1	534,789	1
Accounts payable	2,677,142	5	2,747,750	4
Accounts payable to related parties (Note 27)	707,064	1	642,308	1
Payable on equipment	767,457	1	1,249,178	2
Other payables	1,753,839	3	1,667,581	3
Current portion of long-term borrowings (Note 17)	4,352,267	7	5,879,760	9
Other current liabilities	<u>80,157</u>	<u>-</u>	<u>71,663</u>	<u>-</u>
Total current liabilities	<u>10,878,474</u>	<u>18</u>	<u>13,194,495</u>	<u>21</u>
<b>NON-CURRENT LIABILITIES</b>				
Long-term borrowings (Note 17)	8,755,160	15	9,763,339	16
Net defined benefit liabilities, non-current (Note 18)	524,047	1	481,684	1
Other non-current liabilities	<u>436,620</u>	<u>1</u>	<u>388,128</u>	<u>-</u>
Total non-current liabilities	<u>9,715,827</u>	<u>17</u>	<u>10,633,151</u>	<u>17</u>
Total liabilities	<u>20,594,301</u>	<u>35</u>	<u>23,827,646</u>	<u>38</u>
<b>EQUITY</b>				
Common stock (Note 19)	35,800,002	60	36,949,822	60
Capital surplus	2,470,292	4	2,143,393	3
Unappropriated earnings (accumulated deficits)	2,086,060	3	(1,119,684)	(2)
Exchange differences on translation of foreign financial statements	88,771	-	23,265	-
Unrealized (losses) gains on available-for-sale financial assets	(1,436,767)	(2)	292,835	1
Treasury stock	<u>(106,387)</u>	<u>-</u>	<u>(106,387)</u>	<u>-</u>
Total equity	<u>38,901,971</u>	<u>65</u>	<u>38,183,244</u>	<u>62</u>
<b>TOTAL</b>	<u>\$ 59,496,272</u>	<u>100</u>	<u>\$ 62,010,890</u>	<u>100</u>

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

# WINBOND ELECTRONICS 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	\$ 30,843,606	100	\$ 30,929,689	100
OPERATING COSTS (Note 12)	<u>22,381,244</u>	<u>72</u>	<u>23,315,561</u>	<u>75</u>
GROSS PROFIT	<u>8,462,362</u>	<u>28</u>	<u>7,614,128</u>	<u>25</u>
OPERATING EXPENSES				
Selling expenses	773,989	3	725,368	2
General and administrative expenses	755,116	2	634,278	2
Research and development expenses	<u>3,426,559</u>	<u>11</u>	<u>3,029,747</u>	<u>10</u>
Total operating expenses	<u>4,955,664</u>	<u>16</u>	<u>4,389,393</u>	<u>14</u>
PROFIT FROM OPERATIONS	<u>3,506,698</u>	<u>12</u>	<u>3,224,735</u>	<u>11</u>
NON-OPERATING INCOME AND LOSSES				
Interest income	153,217	1	144,173	-
Dividend income	29,121	-	29,776	-
Gains on doubtful debt recoveries	-	-	902	-
Other income	38,420	-	27,390	-
Gains on disposal of investments	1,625	-	9,824	-
Foreign exchange gains	137,198	-	204,547	1
Share of profit of subsidiaries and associates accounted for using equity method (Note 14)	448,169	1	345,085	1
Interest expense	(262,406)	(1)	(177,101)	(1)
Other expense	(23,702)	-	(23,195)	-
Losses on disposal of property, plant and equipment	(8,238)	-	(6,769)	-
Losses on financial instruments at fair value through profit or loss	<u>(109,851)</u>	<u>-</u>	<u>(107,398)</u>	<u>-</u>
Total non-operating income and losses	<u>403,553</u>	<u>1</u>	<u>447,234</u>	<u>1</u>
PROFIT BEFORE INCOME TAX	3,910,251	13	3,671,969	12
INCOME TAX EXPENSE (Note 21)	<u>619,000</u>	<u>2</u>	<u>596,000</u>	<u>2</u>
NET PROFIT	<u>3,291,251</u>	<u>11</u>	<u>3,075,969</u>	<u>10</u>

(Continued)

# WINBOND ELECTRONICS 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	%
<b>OTHER COMPREHENSIVE INCOME</b>				
Components of other comprehensive income that will not be reclassified to profit or loss:				
Loss on remeasurement of defined benefit plans	\$ (85,507)	-	\$ (7,881)	-
Components of other comprehensive income that will be reclassified to profit or loss:				
Exchange differences on translation of foreign financial statements	65,506	-	82,832	-
Unrealized (losses) gains on available-for-sale financial assets	<u>(1,729,602)</u>	<u>(6)</u>	<u>213,780</u>	<u>1</u>
Other comprehensive income	<u>(1,749,603)</u>	<u>(6)</u>	<u>288,731</u>	<u>1</u>
<b>TOTAL COMPREHENSIVE INCOME</b>	<u>\$ 1,541,648</u>	<u>5</u>	<u>\$ 3,364,700</u>	<u>11</u>
<b>EARNINGS PER SHARE (Note 22)</b>				
Basic	<u>\$ 0.90</u>		<u>\$ 0.83</u>	
Diluted	<u>\$ 0.90</u>		<u>\$ 0.83</u>	

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

(Concluded)

**WINBOND ELECTRONICS CORPORATION**

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

	Other Equity					Total	
	Common Stock	Capital Surplus	Unappropriated Earnings (Accumulated Deficits)	Exchange Differences on Translation of Foreign Financial Statements	Unrealized Gains (Losses) on Available-for-sale Financial Assets		Treasury Stock
BALANCE, JANUARY 1, 2014	\$ 36,940,232	\$ 2,148,359	\$ (4,187,772)	\$ (59,567)	\$ 79,055	\$ (106,387)	\$ 34,813,920
Change in equity of subsidiaries and associates accounted for using equity method	-	(252)	-	-	-	-	(252)
Net income for 2014	-	-	3,075,969	-	-	-	3,075,969
Other comprehensive income for 2014	-	-	(7,881)	82,832	213,780	-	288,731
Total comprehensive income for 2014	-	-	3,068,088	82,832	213,780	-	3,364,700
Issue of ordinary shares under employee stock options	9,590	(4,714)	-	-	-	-	4,876
BALANCE, DECEMBER 31, 2014	36,949,822	2,143,393	(1,119,684)	23,265	292,835	(106,387)	38,183,244
Net income for 2015	-	-	3,291,251	-	-	-	3,291,251
Other comprehensive income for 2015	-	-	(85,507)	65,506	(1,729,602)	-	(1,749,603)
Total comprehensive income for 2015	-	-	3,205,744	65,506	(1,729,602)	-	1,541,648
Acquisition of treasury stock	-	-	-	-	-	(822,921)	(822,921)
Retirement of treasury stock	(1,149,820)	326,899	-	-	-	822,921	-
BALANCE, DECEMBER 31, 2015	\$ 35,800,002	\$ 2,470,292	\$ 2,086,060	\$ 88,771	\$ (1,436,767)	\$ (106,387)	\$ 38,901,971

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

# WINBOND ELECTRONICS CORPORATION

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

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before income tax	\$ 3,910,251	\$ 3,671,969
Adjustments for:		
Depreciation expenses	5,589,185	4,600,207
Amortization expenses	21,591	20,731
(Reversal of) provision for allowance for doubtful accounts	(13,398)	5,740
Provision for decline in market value and obsolescence and abandonment of inventories	121,523	250,629
Net loss (gain) on financial assets and liabilities at fair value through profit or loss	9,795	(4,588)
Interest expense	262,406	177,101
Interest income	(153,217)	(144,173)
Dividend income	(29,121)	(29,776)
Share of profit of subsidiaries and associates accounted for using equity method	(448,169)	(345,085)
Loss on disposal of property, plant and equipment	8,238	6,769
Gain on disposal of investments	(1,625)	(9,824)
Loss (gain) on foreign currency exchange of held-to-maturity financial assets	1,940	(4,070)
Unrealized profit on the transactions with subsidiaries	8,873	13,215
Changes in operating assets and liabilities		
Decrease (increase) in notes and accounts receivable	746,378	(388,782)
Increase in accounts receivable due from related parties	(325,014)	(106,978)
Decrease in other receivables	16,232	37,297
(Increase) decrease in inventories	(2,101,729)	325,919
Increase in other current assets	(164,104)	(246,867)
Increase in other non-current assets	(13,511)	(35,409)
(Decrease) increase in notes payable	(15,289)	17,239
(Decrease) increase in accounts payable	(70,608)	561,128
Increase in accounts payable to related parties	64,756	120,476
Increase in other payables	88,315	3,348
Increase in other current liabilities	8,494	37,183
Increase in other non-current liabilities	19,166	20,256
Cash generated from operations	7,541,358	8,553,655
Interest received	26,121	27,167
Dividend received	181,066	181,720
Interest paid	(329,626)	(272,557)
Income tax (paid) refund	(884)	1,251
Net cash generated from operating activities	<u>7,418,035</u>	<u>8,491,236</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of available-for-sale financial assets	(653,619)	(801,410)
Proceeds from disposal of available-for-sale financial assets	32,027	122,879
Proceeds from capital reduction of available-for-sale financial assets	23,187	-

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# WINBOND ELECTRONICS CORPORATION

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

	2015	2014
Acquisition of financial assets measured at cost	\$ (40,000)	\$ -
Acquisition of investments accounted for using equity method	(5,947)	(1,206)
Proceeds from capital reduction of investments accounted for using equity method	114,651	-
Acquisitions of property, plant and equipment	(3,907,863)	(13,032,502)
Proceeds from disposal of property, plant and equipment	2,856	880
Acquisition of intangible assets	(24,371)	-
Decrease in finance lease receivables	<u>299,818</u>	<u>152,728</u>
Net cash used in investing activities	<u>(4,159,261)</u>	<u>(13,558,631)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Decrease in short-term borrowings	(390,213)	(1,503,665)
Increase in long-term borrowings	3,460,710	9,617,600
Repayments of long-term borrowings	(6,017,973)	(3,863,100)
Payments to acquire treasury stock	(822,921)	-
Proceeds from exercise of employee stock options	<u>-</u>	<u>4,876</u>
Net cash (used in) generated from financing activities	<u>(3,770,397)</u>	<u>4,255,711</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(511,623)	(811,684)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>4,146,238</u>	<u>4,957,922</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 3,634,615</u>	<u>\$ 4,146,238</u>

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

(Concluded)



# WINBOND ELECTRONICS CORPORATION

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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### 1. GENERAL INFORMATION

Winbond Electronics Corporation (the “Company”) was incorporated in the Republic of China (“ROC”) on September 29, 1987 and is engaged in the design, development, manufacture and marketing of Very Large Scale Integration (“VLSI”) integrated circuits (“ICs”) used in a variety of microelectronic applications.

The Company’s shares have been listed on the Taiwan Stock Exchange since October 18, 1995. Walsin Lihwa is a major stockholder of the Company and held approximately 23% ownership interest in the Company as of December 31, 2015 and 2014.

These financial statements are presented in the Company’s functional currency, New Taiwan dollars.

### 2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors and authorized for issue on January 29, 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, whenever applied, the initial application of the above 2013 IFRSs version and the related amendments to the Guidelines Governing the Preparation of Financial Reports by Securities Issuers would not have any material impact on the Company’s accounting policies:

- 1) IFRS 12 “Disclosure of Interests in Other Entities”

IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those required in the current standards.

2) 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 than those required in the current standards. 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 have been applied prospectively from January 1, 2015. Please refer to Note 30 for related disclosures.

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

The amendments 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 current IAS 1, there were no such requirements.

The Company has retrospectively applied the above amendments starting from 2015. Items not expected to be reclassified to profit or loss are remeasurements of the defined benefit plan and the share of the remeasurements of the defined benefit plans of associates accounted for using the equity method. Items expected to be reclassified to profit or loss are the exchange differences on translation of foreign financial statements and unrealized gains (losses) on available-for-sale financial assets. However, the application of the above amendments would not result in any impact on the net profit, other comprehensive income, and total comprehensive income for the year.

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
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

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New IFRSs	Effective Date Announced by IASB (Note 1)
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 indefinite 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 that are within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are subsequently measured at amortized cost or fair value. Specifically, financial assets that are held within a business model whose objective is to collect contractual cash flows, and have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other financial assets are measured at their fair values at the end of reporting period. However, the Company may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

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” requires 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) 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).

7) 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.

8) 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.

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**

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

## **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 Company are financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity financial assets, and loans and receivables.

1) 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.

2) Available-for-sale financial assets

Listed shares held by the Company that are traded in an active market are classified as available-for-sale financial assets and are stated at fair value at the end of each reporting period. Changes in the fair value of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed of or is determined to be impaired.

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

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment loss at the end of each reporting period and 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 profit or loss or other comprehensive income on financial assets. Any impairment losses are recognized in profit and loss.

3) Held-to-maturity financial assets

Bonds which have a specific credit rating and the Company has positive intent and ability to hold to maturity are classified as held-to-maturity financial assets.

Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method less any impairment.

4) 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.

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.

Financial assets carried at amortized cost, such as accounts receivable and held-to-maturity financial assets are assessed for impairment. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables. The amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

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

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of available-for-sale debt securities, impairment loss are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When 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 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 a variety of derivative financial instruments to manage its exposure to foreign exchange rate risks, including foreign exchange forward contracts and cross currency swaps.

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.

g. Information about fair value of financial instruments

The Company determined the fair value of financial assets and liabilities as follow:

- 1) The fair values of financial assets and liabilities which have standard terms and conditions and traded in active liquid market are determined by reference to quoted market price. If there is no quoted market price in active market, valuation techniques are applied.
- 2) 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.
- 3) The fair values of other financial assets and financial liabilities are determined by discounted cash flow analysis in accordance with generally accepted pricing models.

### **Inventories**

Inventories consist of raw materials, supplies, finished goods and work-in-process and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at weighted-average cost on the balance sheet date.

### **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.

Changes in the Company's ownership interests in subsidiaries that do not result in the Company's loss of control over the subsidiaries are accounted for as equity transactions. Any difference between the carrying amount of the investment and the fair value of the consideration paid or received is recognized directly in equity.

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 and sidestream transactions between subsidiaries 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.

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

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

When the Company's share of losses of an associate equals or exceeds its interest in that associate (which includes any carrying amount of the investment accounted for by the equity method and long-term interests, that in substances, form part of the Company's net investment in the associate), the Company discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Company has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

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

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

When 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 subsequent accumulated depreciation and subsequent accumulated impairment loss.

Properties, 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. 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.

The Company's property, plant and equipment were depreciated on a straight-line basis over the estimated useful life of the asset:

Buildings	9-21 years
Machinery and equipment	4-8 years
Other equipment	6 years

### **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 on a straight-line basis over their estimated useful lives. 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.

### **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, with the resulting impairment loss recognized in profit or loss.

When an impairment loss subsequently is reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

### **Provisions**

Provisions are recognized when the Company has a present obligation as a result of a past event and at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. For potential product risk, the Company accrues reserve for product guarantee based on commitment to specific customers.

### **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. Sales returns are recognized at the time of sale provided the seller can reliably estimate future returns; a liability is recognized a liability for returns based on previous experience and other relevant factors. Sales of goods are recognized when the goods are delivered and title is passed to the buyer.

### **Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating lease.

Under finance lease, the Company as lessor recognizes amounts due from lessees as receivables at the amount of the Company's net investment in the lease. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

Under operating lease, the Company as lessor recognizes rental income from operating leases on a straight-line basis over the term of the relevant lease. Contingent rents receivable arising under operating leases are recognized as income in the period in which they are earned. As lessee, operating lease payments are recognized as an expense on a straight-line basis over the lease term. Contingent rents payable arising under operating leases are recognized as an expense in the period in which they are incurred.

### **Borrowing Costs**

Borrowing costs directly attributable to the acquisition of qualifying assets are added to the cost of those assets, until such time that the assets are substantially ready for their intended use.

Other than stated above, all other borrowing costs are recognized in profit or loss 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 rendered by employees.

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.

c. Other long-term employee benefits

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

d. Termination benefits

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

### **Employee Stock Options**

The value of the stock options granted, which is equal to the best available estimate of the number of stock options expected to vest multiplied by the grant-date fair value, is expensed on a straight-line basis over the vesting period, with a corresponding adjustment to capital surplus. The fair value determined at the grant date of the employee stock options is recognized as an expense in full at the grant date when the stock options granted vest immediately.

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

### **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.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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.

### **Reclassifications**

Certain accounts in the financial statements as of and for the year ended December 31, 2014 have been reclassified to conform to the presentation of the financial statements as of and for the year ended December 31, 2015.

## **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.

### **a. Deferred tax**

The realizability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognized in profit or loss for the period in which such a reversal takes place.

### **b. 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.

### **c. Useful lives and impairment of plant, property and equipment**

The Company reviews the estimated useful lives and recoverable amount of property, plant and equipment at the end of each reporting period.

d. Recognition and measurement of defined benefit retirement plans

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

e. 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 on hand	\$ 230	\$ 230
Checking accounts and demand deposits	2,898,278	3,219,668
Repurchase agreements collateralized by bonds	<u>736,107</u>	<u>926,340</u>
	<u>\$ 3,634,615</u>	<u>\$ 4,146,238</u>

The Company has time deposits pledged to secure land lease at a science park and customs tariff obligation which are reclassified as "other non-current assets".

	<u>December 31</u>	
	2015	2014
Time deposits	<u>\$ 71,373</u>	<u>\$ 71,323</u>

## 7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>December 31</u>	
	2015	2014
<u>Financial liabilities at FVTPL - current</u>		
Derivative financial liabilities (not under hedge accounting)		
Forward exchange contracts	<u>\$ 21,048</u>	<u>\$ 11,253</u>

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

<u>December 31, 2015</u>	Currencies	Maturity Date	Contract Amount (In Thousands)
Sell forward exchange contracts	USD to NTD	2016.01.08-2016.02.26	USD89,000/NTD2,909,362

(Continued)

	Currencies	Maturity Date	Contract Amount (In Thousands)
<u>December 31, 2014</u>			
Sell forward exchange contracts	USD to NTD	2015.01.09-2015.02.06	USD45,500/NTD1,428,797 (Concluded)

The Company entered into derivative financial instruments to manage exposures to exchange rate fluctuations of foreign currency denominated assets and liabilities.

## 8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<u>December 31</u>	
	2015	2014
Listed stocks		
Walsin Lihwa Corporation	\$ 1,174,400	\$ 996,000
Hannstar Display Corporation	482,621	794,245
Walton Advanced Engineering Inc.	454,068	738,424
Walsin Technology Corporation	209,968	156,368
CTBC Financial Holding Co., Ltd.	56,834	63,931
Cathay Financial Holding Co., Ltd.	46,323	46,974
Yuanta/P-Shares Taiwan Top 50 ETF	17,618	-
Yuanta Duo Fu Equity Fund	<u>-</u>	<u>30,161</u>
Available-for-sale financial assets - current	<u>\$ 2,441,832</u>	<u>\$ 2,826,103</u>

## 9. HELD-TO-MATURITY FINANCIAL ASSETS

	<u>December 31</u>	
	2015	2014
<u>Current</u>		
CTBC Bank Co., Ltd. 1 <sup>st</sup> Unsecured Financial Debentures in 2013	<u>\$ 99,900</u>	<u>\$ -</u>
<u>Non-current</u>		
CTBC Bank Co., Ltd. 1 <sup>st</sup> Unsecured Financial Debentures in 2013	<u>\$ -</u>	<u>\$ 101,840</u>

On March 12, 2013, the Company bought 3-year financial bonds issued by CTBC Bank Co., Ltd. with a coupon rate and an effective interest rate of 2.9%, at par value of RMB20,000 thousand.

As CTBC Bank Co., Ltd. 1<sup>st</sup> Unsecured Financial Debentures in 2013 hold by the Company is due within one year as of December 31, 2015, the Company reclassified its investment from "held-to-maturity financial assets, non-current" to "held-to-maturity financial assets, current".



## 10. NOTES AND ACCOUNTS RECEIVABLE

	<u>December 31</u>	
	2015	2014
Notes receivable	\$ 658	\$ 834
Accounts receivable	2,872,452	3,620,256
Less: Allowance for doubtful accounts	<u>(71,000)</u>	<u>(86,000)</u>
	<u>\$ 2,802,110</u>	<u>\$ 3,535,090</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 were as follows:

	<u>December 31</u>	
	2015	2014
Not overdue	\$ 2,438,918	\$ 3,230,839
Overdue under 30 days	427,393	374,077
Overdue 31-60 days	633	7,769
Overdue 61 days and longer	<u>5,508</u>	<u>7,571</u>
	<u>\$ 2,872,452</u>	<u>\$ 3,620,256</u>

Movements in the allowance for doubtful accounts recognized on accounts receivable were as follows:

	<u>For the Year Ended December 31</u>	
	2015	2014
Balance at January 1	\$ 86,000	\$ 82,488
Less: Amounts written off	(1,602)	(3,130)
Add: Impairment losses (reversed) recognized on accounts receivable	<u>(13,398)</u>	<u>6,642</u>
Balance at December 31	<u>\$ 71,000</u>	<u>\$ 86,000</u>

The Company's receivables were aged on a collective basis and not on individual account basis.

## 11. FINANCE LEASE RECEIVABLES

	<u>December 31</u>	
	2015	2014
<u>Gross investment in leases</u>		
Not later than one year	\$ 479,741	\$ 201,196
Later than one year and not later than five years	<u>88,944</u>	<u>660,639</u>
	568,685	861,835
Less: Unearned finance income	<u>(131,944)</u>	<u>(252,440)</u>
Present value of minimum lease payments	<u>\$ 436,741</u>	<u>\$ 609,395</u>

(Continued)

	<u>December 31</u>	
	2015	2014
<u>Finance lease receivables</u>		
Not later than one year (recorded as "other receivables")	\$ 360,009	\$ 80,606
Later than one year and not later than five years (recorded as "other non-current assets")	<u>76,732</u>	<u>528,789</u>
Financial lease receivables	<u>\$ 436,741</u>	<u>\$ 609,395</u> (Concluded)

The Company entered into finance lease arrangements for certain machinery. All leases were denominated in New Taiwan dollars. The term of finance leases entered into was 3-5 years.

The interest rate inherent in the leases was fixed at contract date for the entire lease term. As of December 31, 2015, the interest rate inherent in the finance lease was 1.7% per annum.

The part of machinery which was reclassified to financial lease receivables was pledged to secure long-term borrowings.

The finance lease receivables as of December 31, 2015 and 2014 were neither past due nor impaired.

## 12. INVENTORIES

	<u>December 31</u>	
	2015	2014
Finished goods	\$ 1,700,038	\$ 1,438,719
Work-in-process	5,419,231	3,737,851
Raw materials and supplies	387,505	339,735
Inventories in transit	<u>8,018</u>	<u>18,281</u>
	<u>\$ 7,514,792</u>	<u>\$ 5,534,586</u>

- a. Loss on decline in market value and obsolescence and abandonment of inventories were \$121,523 thousand and \$250,629 thousand, which were recognized as cost of sales for the years ended December 31, 2015 and 2014, respectively.
- b. Unallocated fixed manufacturing costs recognized as cost of sales in the years ended December 31, 2015 and 2014 amounted to \$222,235 thousand and \$124,836 thousand, respectively.

## 13. FINANCIAL ASSETS MEASURED AT COST

	<u>December 31</u>	
	2015	2014
Smart Catch International Co., Ltd.	\$ 40,000	\$ -
Harbinger III Venture Capital Corp.	26,908	26,908
Others	<u>13,253</u>	<u>13,253</u>
Financial assets measured at cost, non-current	<u>\$ 80,161</u>	<u>\$ 40,161</u>

Management believed that the above unlisted equity investments held by the Company have fair value that cannot be reliably measured because the range of reasonable fair value estimates was so significant; therefore they were measured at cost less impairment at the end of reporting period.

#### 14. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	<u>December 31</u>	
	2015	2014
Investments in subsidiaries	\$ 4,324,440	\$ 4,159,810
Investments in associates	<u>1,724,898</u>	<u>2,416,386</u>
	<u>\$ 6,049,338</u>	<u>\$ 6,576,196</u>

##### a. Investments in subsidiaries

	<u>December 31</u>			
	2015		2014	
	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Listed companies				
Nuvoton Technology Corporation	\$ 1,882,834	61	\$ 1,763,509	61
Unlisted companies				
Winbond Int'l Corporation	1,865,121	100	1,797,883	100
Landmark Group Holding Ltd.	249,903	100	286,613	100
Pine Capital Investment Limited	294,852	100	285,822	100
Winbond Technology Ltd.	31,730	100	25,983	100
Newfound Asian Corp.	-	100	-	100
Mobile Magic Design Corporation	-	100	-	100
Winbond Electronics (H.K.) Limited	-	100	-	100
	<u>\$ 4,324,440</u>		<u>\$ 4,159,810</u>	

- 1) Fair value of investment in subsidiaries for which there are published price quotations are summarized as follows, based on closing price of those investments at the balance sheet date:

Name of Subsidiary	<u>December 31</u>	
	2015	2014
Nuvoton Technology Corporation	<u>\$ 3,893,568</u>	<u>\$ 3,608,672</u>

- 2) In May 2015 and 2014, the Company subscribed shares of Winbond Int'l Corporation for cash of \$3,068 thousand and \$1,206 thousand, respectively.
- 3) In March 2015, the Company subscribed shares of Pine Capital Investment Limited for cash of \$1,583 thousand.
- 4) In October 2015, the Company subscribed shares of Newfound Asian Corp. for cash of \$1,296 thousand.
- 5) In January and December 2015, the board of directors of Landmark Group Holding Ltd. totally resolved capital reduction in the amounts of \$114,651 thousand.

- 6) In 2015 and 2014, the Company recognized share of profit of subsidiaries under equity method in the amounts of \$426,284 thousand and \$344,986 thousand, respectively.

b. Investments in associates

	<u>December 31</u>	
	2015	2014
1) Associates that are not individually material	<u>\$ 1,724,898</u>	<u>\$ 2,416,386</u>
2) Aggregate information of associates that are not individually material		
	<u>For the Year Ended December 31</u>	
	2015	2014
The Company's share of:		
Profit from continuing operations	\$ 21,884	\$ 99
Other comprehensive income	<u>(713,373)</u>	<u>93,229</u>
Total comprehensive income for the year	<u>\$ (691,489)</u>	<u>\$ 93,328</u>

The investments accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2015 and 2014 were based on the subsidiaries' and associates' financial statements audited by independent auditors.

## 15. PROPERTY, PLANT AND EQUIPMENT

	<u>December 31</u>	
	2015	2014
Land	\$ 1,544,450	\$ 1,544,450
Building	7,712,140	7,951,679
Machinery and equipment	20,865,443	23,343,451
Other equipment	281,329	265,114
Construction in progress and prepayments on purchase of equipment	<u>791,811</u>	<u>199,453</u>
	<u>\$ 31,195,173</u>	<u>\$ 33,304,147</u>

<u>Cost</u>	<u>December 31</u>					Total
	Land	Building	Machinery and Equipment	Other Equipment	Construction in Progress and Prepayments on Purchase of Equipment	
Balance at January 1, 2015	\$ 1,544,450	\$ 16,917,886	\$ 78,361,236	\$ 2,712,452	\$ 199,453	\$ 99,735,477
Additions	-	475,078	1,895,035	104,816	1,016,376	3,491,305
Disposals	-	(22,906)	(168,634)	(2,372)	-	(193,912)
Reclassified	-	373,314	50,704	-	(424,018)	-
Balance at December 31, 2015	<u>\$ 1,544,450</u>	<u>\$ 17,743,372</u>	<u>\$ 80,138,341</u>	<u>\$ 2,814,896</u>	<u>\$ 791,811</u>	<u>\$ 103,032,870</u>
Accumulated depreciation and impairment						
Balance at January 1, 2015	\$ -	\$ 8,966,207	\$ 55,017,785	\$ 2,447,338	\$ -	\$ 66,431,330
Depreciation expense	-	1,077,572	4,423,020	88,593	-	5,589,185
Disposals	-	(12,547)	(167,907)	(2,364)	-	(182,818)
Reclassified	-	-	-	-	-	-
Balance at December 31, 2015	<u>\$ -</u>	<u>\$ 10,031,232</u>	<u>\$ 59,272,898</u>	<u>\$ 2,533,567</u>	<u>\$ -</u>	<u>\$ 71,837,697</u>

(Continued)

	Land	Building	Machinery and Equipment	Other Equipment	Construction in Progress and Prepayments on Purchase of Equipment	Total
<u>Cost</u>						
Balance at January 1, 2014	\$ 799,147	\$ 16,436,524	\$ 66,940,839	\$ 2,599,661	\$ 992,246	\$ 87,768,417
Additions	745,303	429,204	12,466,356	110,780	197,634	13,949,277
Disposals	-	-	(1,812,246)	(542)	-	(1,812,788)
Reclassified	-	52,158	766,287	2,553	(990,427)	(169,429)
Balance at December 31, 2014	<u>\$ 1,544,450</u>	<u>\$ 16,917,886</u>	<u>\$ 78,361,236</u>	<u>\$ 2,712,452</u>	<u>\$ 199,453</u>	<u>\$ 99,735,477</u>
<u>Accumulated depreciation and impairment</u>						
Balance at January 1, 2014	\$ -	\$ 8,074,913	\$ 53,212,270	\$ 2,349,079	\$ -	\$ 63,636,262
Depreciation expense	-	891,294	3,610,111	98,802	-	4,600,207
Disposals	-	-	(1,804,596)	(543)	-	(1,805,139)
Reclassified	-	-	-	-	-	-
Balance at December 31, 2014	<u>\$ -</u>	<u>\$ 8,966,207</u>	<u>\$ 55,017,785</u>	<u>\$ 2,447,338</u>	<u>\$ -</u>	<u>\$ 66,431,330</u>

(Concluded)

- a. As of December 31, 2015 and 2014, the carrying values of \$22,384,768 thousand and \$24,648,354 thousand of land, building and 12-inch Fab manufacturing facilities were pledged to secure long-term borrowing. The Company was not permitted to sell or pledge all of these pledged assets.
- b. Information about capitalized interest

	<u>For the Year Ended December 31</u>	
	2015	2014
Capitalized interest amounts	\$ 65,163	\$ 94,968
Capitalized interest rate	2.02%-2.16%	2.16%-2.24%

## 16. INTANGIBLE ASSET

	<u>December 31</u>	
	2015	2014
Deferred technical assets, net	<u>\$ 76,371</u>	<u>\$ 52,000</u>
<b>Deferred Technical Assets</b>		
<u>Cost</u>		
Balance at January 1, 2015		\$ 17,763,553
Additions		<u>24,371</u>
Balance at December 31, 2015		<u>\$ 17,787,924</u>
<u>Accumulated amortization and impairment</u>		
Balance at January 1, 2015		\$ 17,711,553
Balance at December 31, 2015		<u>\$ 17,711,553</u>

(Continued)

	<b>Deferred Technical Assets</b>
<u>Cost</u>	
Balance at January 1, 2014	\$ <u>17,763,553</u>
Balance at December 31, 2014	\$ <u>17,763,553</u>
<u>Accumulated amortization and impairment</u>	
Balance at January 1, 2014	\$ <u>17,711,553</u>
Balance at December 31, 2014	\$ <u>17,711,553</u> (Concluded)

The amounts of deferred technical assets were the technical transfer fee in connection with certain technical transfer agreements. The above technical assets pertained to different products or process technology. The assets were depreciated on a straight-line basis from the commencement of production, and over the estimated useful life of the assets: Deferred technical assets - economic benefits or terms of the contracts.

## 17. BORROWINGS

	<u>December 31</u>	
	2015	2014
Short-term borrowings	\$ <u>-</u>	\$ <u>390,213</u>
Long-term borrowings	\$ <u>13,107,427</u>	\$ <u>15,643,099</u>

### a. Short-term borrowings

	<u>December 31</u>			
	2015		2014	
	Interest Rate	Amount	Interest Rate	Amount
Materials procurement loans	-	\$ <u>-</u>	1.11%-1.25%	\$ <u>390,213</u>

### b. Long-term borrowings

		<u>December 31</u>		
		2015		2014
	Period	Interest Rate	Amount	Amount
Bank of Taiwan syndicated loan (II)	2010.06.18-2015.06.18	2.58%-3.11%	\$ -	\$ 550,000
Bank of Taiwan syndicated loan (III)	2011.12.23-2016.12.23	2.14%-2.64%	3,518,927	5,192,860
CTBC Bank Co., Ltd. syndicated loan (III)	2012.12.27-2015.12.27	2.14%-2.65%	-	3,333,330
CTBC Bank Co., Ltd. syndicated loan (IV)	2014.11.27-2019.11.27	1.94%-2.23%	9,000,000	6,000,000
Bank of Taiwan secured medium-term loan	2014.12.29-2021.12.29	1.55%-1.70%	<u>617,600</u>	<u>617,600</u>
			13,136,527	15,693,790
Less: Current portion			(4,352,267)	(5,879,760)
Less: Syndication agreement management fee			<u>(29,100)</u>	<u>(50,691)</u>
			\$ <u>8,755,160</u>	\$ <u>9,763,339</u>

- 1) Bank of Taiwan Syndicated Loan (II)
  - a) On May 31, 2010, the Company entered into a syndicated loan, with a group of financial institutions to procure equipment for 12-inch Fab and fund the long-term loan payments, credit line was divided into parts A and B, which amounted to \$3.3 billion and \$3.5 billion, respectively; the total line of credit \$6.8 billion.
  - b) Part A will be repaid every six months from December 18, 2012 until maturity; part B will be repaid from June 18, 2012 at 20%, 20% and 60% of the principal, respectively.
  - c) Please refer to Note 15 for collateral on bank borrowing.
  - d) The agreement was fully redeemed on June 18, 2015.
- 2) Bank of Taiwan Syndicated Loan (III)
  - a) On September 19, 2011, the Company entered into a syndicated loan, the original amount of \$7 billion was deducted \$0.25 billion because prepayment, finally amounting to \$6.75 billion, with a group of financial institutions to procure equipment for 12-inch Fab.
  - b) The Company changed the terms and repayment schedule of the agreement on December 18, 2013. The loan utilized before December 22, 2013 will be repaid every six months from June 23, 2014 and the loan utilized after December 22, 2013 will be repaid every six months at 30%, 30% and 40% from December 23, 2015, respectively.
  - c) Please refer to Note 15 for collateral on bank borrowing.
- 3) CTBC Bank Co., Ltd. Syndicated Loan (III)
  - a) On November 19, 2012, the Company entered into a syndicated loan, amounting to \$5 billion, with a group of financial institutions to fund the long-term loan payments and finance the working capital.
  - b) The principal will be repaid every six months from December 27, 2014 until maturity.
  - c) Please refer to Note 15 for collateral on bank borrowing.
  - d) The agreement was fully redeemed on December 25, 2015.
- 4) CTBC Bank Co., Ltd. Syndicated Loan (IV)
  - a) On July 7, 2014, the Company entered into a syndicated loan, with a group of financial institutions to procure equipment for 12-inch Fab and fund the borrowing payments, credit line was divided into part A and B, which amounted to \$6.5 billion and \$2.5 billion, respectively; the total line of credit \$9 billion.
  - b) Part A will be repaid every six months from November 27, 2017 until maturity, part B will be repaid every six months from November 27, 2016 until maturity.
  - c) Please refer to Note 15 for collateral on bank borrowing.
- 5) The collateral on the Bank of Taiwan secured medium-term loan are the land and building of the Company in Zhubei, please referred to Note 15. The principal will be repaid every six months from June 29, 2017 until maturity.

- 6) The Company is required to maintain certain financial covenants, including current ratio, debt ratio and tangible net equity, on June 30 and December 31 during the tenors of the loans. Additionally, the principal and interest coverage should be also maintained on June 30 and December 31 during the tenors of the loans except for the Bank of Taiwan secured medium - term loan. The computations of financial ratios mentioned above are done based on the audited consolidated financial statements.

## 18. 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. The Company and contribute amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Company has no right to influence the investment policy and strategy.

The amount included in the balance sheet in respect of the Company's obligation on its defined benefit plan was as follows:

	<u>December 31</u>	
	2015	2014
Present value of the defined benefit obligation	\$ 1,013,847	\$ 984,184
Fair value of the plan assets	<u>(489,800)</u>	<u>(502,500)</u>
Net defined benefit liabilities, non-current	<u>\$ 524,047</u>	<u>\$ 481,684</u>

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

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liability (Asset)</b>
Balance at January 1, 2015	\$ 984,184	\$ (502,500)	\$ 481,684
Service cost			
Current service cost	14,900	-	14,900
Net interest expense (income)	<u>20,965</u>	<u>(10,764)</u>	<u>10,201</u>
Recognized in profit or loss	<u>35,865</u>	<u>(10,764)</u>	<u>25,101</u>

(Continued)



	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liability (Asset)</b>
Remeasurement			
Return on plan assets	\$ -	\$ (2,501)	\$ (2,501)
Actuarial loss - changes in financial assumptions	37,933	-	37,933
Actuarial gain - experience adjustments	<u>(3,914)</u>	<u>-</u>	<u>(3,914)</u>
Recognized in other comprehensive income	<u>34,019</u>	<u>(2,501)</u>	<u>31,518</u>
Contributions from the employer	-	(14,256)	(14,256)
Benefits paid	<u>(40,221)</u>	<u>40,221</u>	<u>-</u>
Balance at December 31, 2015	<u>\$ 1,013,847</u>	<u>\$ (489,800)</u>	<u>\$ 524,047</u>
Balance at January 1, 2014	<u>\$ 955,348</u>	<u>\$ (494,437)</u>	<u>\$ 460,911</u>
Service cost			
Current service cost	16,208	-	16,208
Net interest expense (income)	<u>21,451</u>	<u>(6,244)</u>	<u>15,207</u>
Recognized in profit or loss	<u>37,659</u>	<u>(6,244)</u>	<u>31,415</u>
Remeasurement			
Return on plan assets	-	(5,293)	(5,293)
Actuarial loss - changes in financial assumptions	9,621	-	9,621
Actuarial gain - experience adjustments	<u>(1,044)</u>	<u>-</u>	<u>(1,044)</u>
Recognized in other comprehensive income	<u>8,577</u>	<u>(5,293)</u>	<u>3,284</u>
Contributions from the employer	-	(13,926)	(13,926)
Benefits paid	<u>(17,400)</u>	<u>17,400</u>	<u>-</u>
Balance at December 31, 2014	<u>\$ 984,184</u>	<u>\$ (502,500)</u>	<u>\$ 481,684</u> (Concluded)

Amounts recognized in profit or loss in respect of these defined benefit plans analyzed by function were as follows:

	<b>For the Year Ended December 31</b>	
	<b>2015</b>	<b>2014</b>
Operating cost	\$ 14,014	\$ 17,827
Selling expenses	1,890	2,611
General and administrative expenses	2,805	3,406
Research and development expenses	<u>6,392</u>	<u>7,571</u>
	<u>\$ 25,101</u>	<u>\$ 31,415</u>

The fair value of the plan assets was as follows:

	<b>December 31</b>	
	<b>2015</b>	<b>2014</b>
Cash and cash equivalents	<u>\$ 489,800</u>	<u>\$ 502,500</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 plan's debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

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

	<u>December 31</u>	
	2015	2014
Discount rate	1.75%	2.15%
Expected rate of salary increase	3.00%	3.00%

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:

	<u>December 31</u>	
	2015	2014
Discount rate		
0.5% increase	<u>\$ (47,080)</u>	<u>\$ (46,724)</u>
0.5% decrease	<u>\$ 50,642</u>	<u>\$ 50,310</u>
Expected rate of salary increase		
0.5% increase	<u>\$ 49,781</u>	<u>\$ 49,656</u>
0.5% decrease	<u>\$ (46,769)</u>	<u>\$ (46,591)</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.

	<u>December 31</u>	
	2015	2014
The expected contribution to the plan for the next year	<u>\$ 6,630</u>	<u>\$ 14,520</u>
The average duration of defined benefit obligation	9.70 years	9.96 years

## 19. EQUITY

### a. Common stock

	<u>December 31</u>	
	<u>2015</u>	<u>2014</u>
Number of shares authorized (in thousands)	<u>6,700,000</u>	<u>6,700,000</u>
Share authorized	<u>\$ 67,000,000</u>	<u>\$ 67,000,000</u>
Number of shares issued and fully paid (in thousands)	<u>3,580,000</u>	<u>3,694,982</u>
Share issued	<u>\$ 35,800,002</u>	<u>\$ 36,949,822</u>

#### Reconciliation of outstanding share:

	<b>Shares</b> <b>(In Thousands)</b>	<b>Capital</b>
January 1, 2015	3,694,982	\$ 36,949,822
Retirement of treasury stock	<u>(114,982)</u>	<u>(1,149,820)</u>
December 31, 2015	<u>3,580,000</u>	<u>\$ 35,800,002</u>
January 1, 2014	3,694,023	\$ 36,940,232
Employee executed the stock options	<u>959</u>	<u>9,590</u>
December 31, 2014	<u>3,694,982</u>	<u>\$ 36,949,822</u>

As of December 31, 2014, the balance of the Company's capital account amount to \$36,949,822 thousand, divided into 3,694,982 thousand shares at par NT\$10.00 per share. As of December 31, 2015, the balance of the Company's capital account amount to \$35,800,002 thousand, divided into 3,580,000 thousand shares at par NT\$10.00 per share.

### b. 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 differences 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:

- a. 1% to 2% as remuneration to directors and supervisors;
- b. 10% to 15% as bonus to employees;
- c. 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 b 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 29, 2016 and are subject to the resolution of the shareholders in their meeting to be held on June 16, 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 20 employee benefits expense.

Appropriation of earnings to 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.

Pursuant to existing regulations, the Company is required to set aside additional special capital reserve equivalent to the net debit balance of the other components of stockholders' equity, such as the accumulated balance of foreign currency translation reserve, unrealized valuation gain/loss from available-for-sale financial assets, net amounts of fair value below the cost of the Company's common shares held by subsidiaries, etc. For the subsequent decrease in the deduction amount to stockholders' equity, any special reserve appropriated may be reversed to the extent that the net debit balance reverses.

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

The appropriations of earnings for 2015 are not subjected.

The Company's results were loss for the years ended December 31, 2014 and 2013, so the stockholders' meetings on June 18, 2015 and June 17, 2014 did not include appropriations of earnings. The relevant information about the Company is available on MOPS. The Company had accumulated deficits in the years 2014; thus it did not estimate bonus to employees, directors and supervisors.

c. Capital surplus

	<u>December 31</u>	
	2015	2014
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital*		
Arising from treasury share transactions	\$ 2,298,761	\$ 1,971,862
Arising from conversion of bonds	136,352	136,352
<u>May be used to offset a deficit only</u>		
Arising from changes in percentage of ownership interest in subsidiaries	6,042	6,042
<u>May not be used for any purpose</u>		
Arising from share of changes in capital surplus of associates	<u>29,137</u>	<u>29,137</u>
	<u>\$ 2,470,292</u>	<u>\$ 2,143,393</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 as cash dividends or transferred to share capital (limited to a certain percentage of the Company's capital surplus and once a year).

d. Other equity items

Exchange differences on translation of foreign financial statements are the exchange differences on net assets of foreign operations translated into the Company's functional currency (New Taiwan dollar), which are recognized directly in other comprehensive income. For the years ended December 31, 2015 and 2014, the Company recognized gain of \$65,506 thousand and gain of \$82,832 thousand in other comprehensive income, respectively.

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

	<u>For the Year Ended December 31</u>	
	2015	2014
Balance, beginning of year	\$ 292,835	\$ 79,055
Unrealized (loss) gain arising on revaluation of available-for-sale financial assets	(984,703)	117,728
Share of unrealized (loss) gain on revaluation of available-for-sale financial assets of subsidiaries and associates accounted for using equity method	<u>(744,899)</u>	<u>96,052</u>
Balance, end of year	<u>\$ (1,436,767)</u>	<u>\$ 292,835</u>

e. Treasury stock

On July 31 and October 1, 2015, the Company's board of directors passed a resolution to buy back the Company's common shares from the open market. The repurchase price ranged from NT\$6.5 to NT\$8.5 per share. The Company bought back 114,982,000 shares for NT\$822,921 thousand. On October 31, the Company resolved to retire the 114,982,000 treasury shares.

1) Treasury stock transactions for the year of 2015, were summarized as follows:

Purpose of Buyback	Treasury Stock Held as of January 1, 2015	Increase During the Year	Decrease During the Year	Treasury Stock Held as of December 31, 2015
Maintain the Company's credibility and shareholders' equity	-	114,982,000	(114,982,000)	-
Common shares held by subsidiaries	<u>7,518,364</u>	<u>-</u>	<u>-</u>	<u>7,518,364</u>
	<u>7,518,364</u>	<u>114,982,000</u>	<u>(114,982,000)</u>	<u>7,518,364</u>

2) Treasury stock transactions for the year of 2014 were summarized as follows:

Purpose of Buyback	Treasury Stock Held as of January 1, 2014	Increase During the Year	Decrease During the Year	Treasury Stock Held as of December 31, 2014
Common shares held by subsidiaries	<u>7,518,364</u>	<u>-</u>	<u>-</u>	<u>7,518,364</u>

The Company's shares held by its subsidiaries at the end of the reporting periods were as follows:

Name of Subsidiary	Number of Shares Held	Carrying Value	Market Value
<u>December 31, 2015</u>			
Baystar Holdings Ltd.	7,518,364	<u>\$ 106,387</u>	<u>\$ 59,320</u>
<u>December 31, 2014</u>			
Baystar Holdings Ltd.	7,518,364	<u>\$ 106,387</u>	<u>\$ 81,574</u>

Based on the Securities and Exchange Act of the ROC, the Company shall neither pledge treasury shares nor exercise shareholders' rights on these shares, such as rights to dividends and to vote.

The purpose of holding the shares is to maintain Stockholders' equity. The Company's shares held by subsidiaries were treated as treasury stock, and the holders are entitled to the rights of stockholders, except for the right to participate in the Company's share issuance for cash and vote in stockholders' meeting when the subsidiary held more than 50%. Other rights are the same as common stock.

## 20. EMPLOYEE BENEFITS EXPENSE, DEPRECIATION, AND AMORTIZATION

	<u>For the Year Ended December 31, 2015</u>			
	Classified as Operating Costs	Classified as Operating Expenses	Classified as Non-operating Income and Losses	Total
Short-term employee benefits				
Salary	<u>\$ 1,595,909</u>	<u>\$ 1,297,193</u>	<u>\$ -</u>	<u>\$ 2,893,102</u>
Insurance	<u>\$ 116,780</u>	<u>\$ 74,134</u>	<u>\$ -</u>	<u>\$ 190,914</u>
Post-employment benefits				
Pension	<u>\$ 83,780</u>	<u>\$ 61,692</u>	<u>\$ -</u>	<u>\$ 145,472</u>
Depreciation	<u>\$ 5,305,178</u>	<u>\$ 284,007</u>	<u>\$ -</u>	<u>\$ 5,589,185</u>
Amortization	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,591</u>	<u>\$ 21,591</u>
	<u>For the Year Ended December 31, 2014</u>			
	Classified as Operating Costs	Classified as Operating Expenses	Classified as Non-operating Income and Losses	Total
Short-term employee benefits				
Salary	<u>\$ 1,532,129</u>	<u>\$ 1,103,014</u>	<u>\$ -</u>	<u>\$ 2,635,143</u>
Insurance	<u>\$ 109,933</u>	<u>\$ 65,361</u>	<u>\$ -</u>	<u>\$ 175,294</u>
Post-employment benefits				
Pension	<u>\$ 82,975</u>	<u>\$ 50,254</u>	<u>\$ -</u>	<u>\$ 133,229</u>
Depreciation	<u>\$ 4,455,407</u>	<u>\$ 144,800</u>	<u>\$ -</u>	<u>\$ 4,600,207</u>
Amortization	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,731</u>	<u>\$ 20,731</u>

There were 2,321 and 2,217 employees in the Company as of December 31, 2015 and 2014, respectively.

The Company had accumulated deficits in 2014; thus it did not estimate bonus to employees, directors and supervisors. 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% of net profit before income tax, respectively. For the year ended December 31, 2015, the employees' compensation and the remuneration to directors and supervisors were \$28,475 thousand and \$28,475 thousand, respectively, representing 1% and 1%, respectively, of the base net profit (offset a deficit included). 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 bonus and remuneration were 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 relevant information about the Company is available on MOPS.

## 21. INCOME TAXES RELATING TO CONTINUING OPERATIONS

### a. Income tax recognized in profit or loss

The major components of income tax expense were as follows:

	<u>For the Year Ended December 31</u>	
	2015	2014
Current tax		
In respect of the current year	\$ 597,000	\$ 567,000
Deferred tax		
In respect of the current year	<u>22,000</u>	<u>29,000</u>
Income tax expense recognized in profit or loss	<u>\$ 619,000</u>	<u>\$ 596,000</u>

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

	<u>For the Year Ended December 31</u>	
	2015	2014
Profit before tax from continuing operations	\$ 665,000	\$ 624,000
Permanent difference	<u>(68,000)</u>	<u>(57,000)</u>
Current income tax expenses	597,000	567,000
Temporary difference	<u>22,000</u>	<u>29,000</u>
Income tax expense recognized in profit or loss	<u>\$ 619,000</u>	<u>\$ 596,000</u>

The applicable tax rate used by the Company is 17%.

### b. Current tax assets and liabilities

	<u>December 31</u>	
	2015	2014
Current income tax assets		
Tax refund receivable (recorded as "other receivables")	<u>\$ 7,195</u>	<u>\$ 6,311</u>

- c. As of December 31, 2015 and 2014, deferred tax assets of \$2,527,000 thousand and \$3,146,000 thousand, respectively, were mainly net operating loss carryforwards.
- d. Information about the Company's operating loss carryforwards as of December 31, 2015 was as follows:

Operating loss carryforwards as of December 31, 2015, comprised of:

Operating Loss Carryforwards	Expiry Year
\$ 2,502,000	2017-2019
<u>475,000</u>	2022
<u>\$ 2,977,000</u>	

- e. The information on the integrated income tax was as follows:

	December 31	
	2015	2014
Balance of imputation credit account	\$ 381,823	\$ 339,974
Undistributed earnings for the years of 1997 and before	<u>\$ -</u>	<u>\$ -</u>
Undistributed earnings (accumulated deficits) for the years of 1998 and thereafter	<u>\$ 2,086,060</u>	<u>\$ (1,119,684)</u>

- f. The tax returns through 2012 have been assessed by the tax authorities.

## 22. EARNINGS PER SHARE

	For the Year Ended December 31, 2015				
	Amounts (Numerator)		Shares	Earnings Per Share (NT\$)	
	Before Tax	After Tax	(Denominator) (In Thousands)	Before Tax	After Tax
Basic earnings per share					
Net income attributed to common shareholders	<u>\$ 3,910,251</u>	<u>\$ 3,291,251</u>	<u>3,648,377</u>	<u>\$ 1.07</u>	<u>\$ 0.90</u>
Diluted earnings per share					
Net income attributed to common shareholders	<u>\$ 3,910,251</u>	<u>\$ 3,291,251</u>	<u>3,648,377</u>	<u>\$ 1.07</u>	<u>\$ 0.90</u>
	For the Year Ended December 31, 2014				
	Amounts (Numerator)		Shares	Earnings Per Share (NT\$)	
	Before Tax	After Tax	(Denominator) (In Thousands)	Before Tax	After Tax
Basic earnings per share					
Net income attributed to common shareholders	<u>\$ 3,671,969</u>	<u>\$ 3,075,969</u>	<u>3,687,217</u>	<u>\$ 1.00</u>	<u>\$ 0.83</u>
Diluted earnings per share					
Net income attributed to common shareholders	<u>\$ 3,671,969</u>	<u>\$ 3,075,969</u>	<u>3,687,217</u>	<u>\$ 1.00</u>	<u>\$ 0.83</u>



## 23. SHARE-BASED PAYMENT ARRANGEMENT

### Employee Stock Option

In 2008 and 2009, the Company granted employee stock options in the quantity of 45,764 thousand and 1,585 thousand units, respectively. Each individual employee stock options is granted the right to purchase the Company's new issued one common share. The stock options were granted to qualified employees of the Company and its subsidiaries. The stock options granted are valid for 5 years and exercisable at certain percentages after the second anniversary year from the grant date. The stock options were granted at an exercise price equal to the closing price of the Company's common shares listed on the Taiwan Stock Exchange on the grant date. For any subsequent changes in the Company's capital surplus, the exercise price and the number of options are adjusted accordingly.

As of December 31, 2015, there is no outstanding stock options.

In 2014, employee stock options were summarized as follows:

Employee Stock Options	For the Year Ended December 31, 2014	
	Number of Options (In Thousands)	Weighted Average Exercise Price (NT\$)
Outstanding balance, beginning of year	959	\$ 5.08
Options exercised	<u>(959)</u>	5.08
Outstanding balance, end of year	<u>-</u>	-
Options exercisable, end of year	<u>-</u>	-

## 24. NON-CASH TRANSACTIONS

	For the Year Ended December 31	
	2015	2014
Non-cash investing and financing activities		
Current portion of long-term borrowings	<u>\$ 4,352,267</u>	<u>\$ 5,879,760</u>
Exchange differences on translation of foreign financial statements	<u>\$ 65,506</u>	<u>\$ 82,832</u>
Unrealized (loss) gain on available-for-sale financial assets	<u>\$ (1,729,602)</u>	<u>\$ 213,780</u>
Change in equity of subsidiaries and associates accounted for using equity method	<u>\$ -</u>	<u>\$ (252)</u>
Acquisitions of available-for-sale financial assets by offset with accounts receivable	<u>\$ -</u>	<u>\$ 902</u>
Property, plant and equipment was reclassified to finance lease receivable	<u>\$ -</u>	<u>\$ 169,429</u>

## 25. OPERATING LEASE ARRANGEMENTS

### The Company as Lessee

#### a. Lease arrangements

The Company leased land from Science Park Administration until 2023, and the lease term can be extended after the expiration of the lease period. The Company leased some of the offices, and the lease terms will expire between 2016 and 2022 which can be extended after the expiration of the lease periods.

As of December 31, 2015 and 2014, deposits paid under operating leases amounted to \$14,160 thousand and \$7,851 thousand, respectively (recorded as "other non-current assets").

#### b. Lease expense

	<u>For the Year Ended December 31</u>	
	<u>2015</u>	<u>2014</u>
Lease expenditure	<u>\$ 67,649</u>	<u>\$ 64,099</u>

## 26. 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, debt repayments and dividends payments.

## 27. RELATED PARTY TRANSACTIONS

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

<u>Related Party</u>	<u>Relationship with the Company</u>
Walsin Lihwa Corporation	Investor that exercises significant influence over the Company
Winbond Electronics (H.K.) Limited	Subsidiary
Mobile Magic Design Corporation	Subsidiary
Winbond Electronics (Suzhou) Limited	Subsidiary
Winbond Electronics Corporation America	Subsidiary
Winbond Electronics Corporation Japan	Subsidiary
Winbond Technology Ltd.	Subsidiary
Nuvoton Technology Corporation	Subsidiary
Techdesign Corporation	Subsidiary
Global Brands Manufacture Ltd.	Related party in substance
Walton Advanced Engineering Inc.	Related party in substance
Global Brands Manufacture (Dongguan) Ltd.	Related party in substance
Walton Advanced Engineering (Suzhou) Inc.	Related party in substance
HannStar Display Corporation	Related party in substance
HannStar Board Corporation	Related party in substance
Walsin Technology Corporation	Related party in substance
Harbinger III Venture Capital Corp.	Related party in substance

b. Operating activities

	<u>For the Year Ended December 31</u>	
	2015	2014
1) Operating revenue		
Subsidiaries	\$ 11,026,137	\$ 8,931,063
Related party in substance	<u>                  -</u>	<u>                  8,055</u>
	<u>\$ 11,026,137</u>	<u>\$ 8,939,118</u>
2) Manufacturing expenses		
Related party in substance	<u>\$ 2,842,432</u>	<u>\$ 2,667,828</u>
3) Selling expenses		
Subsidiaries	<u>\$ 152,566</u>	<u>\$ 136,207</u>
4) General and administrative expenses		
Investor that exercises significant influence over the Company	\$ 8,566	\$ 8,450
Related party in substance	<u>          1,537</u>	<u>                  -</u>
	<u>\$ 10,103</u>	<u>\$ 8,450</u>
5) Research and development expenses		
Subsidiaries	<u>\$ 804,772</u>	<u>\$ 770,082</u>
6) Other income		
Subsidiaries	\$ 2,111	\$ 1,954
Related party in substance	<u>          663</u>	<u>                  99</u>
	<u>\$ 2,774</u>	<u>\$ 2,053</u>
7) Dividend income		
Related party in substance	<u>\$ 24,021</u>	<u>\$ 22,405</u>
	<u>December 31</u>	
	2015	2014
8) Accounts receivable due from related parties		
Subsidiaries	<u>\$ 1,320,712</u>	<u>\$ 983,807</u>
9) Accounts payable to related parties		
Related party in substance	<u>\$ 707,064</u>	<u>\$ 642,308</u>

	<b>December 31</b>	
	<b>2015</b>	<b>2014</b>
10) Other receivables and other current assets		
Subsidiaries	\$ 52	\$ 99
Investor that exercises significant influence over the Company	<u>277</u>	<u>3</u>
	<u>\$ 329</u>	<u>\$ 102</u>
11) Other payables		
Subsidiaries	\$ 237,184	\$ 240,950
Related party in substance	33,423	13,133
Investor that exercises significant influence over the Company	<u>1,545</u>	<u>38</u>
	<u>\$ 272,152</u>	<u>\$ 254,121</u>
12) Refundable deposits (recorded as “other non-current assets”)		
Subsidiaries	\$ 545	\$ 545
Investor that exercises significant influence over the Company	<u>203</u>	<u>203</u>
	<u>\$ 748</u>	<u>\$ 748</u>

The related party transactions were conducted under normal terms.

c. Compensation of key management personnel

	<b>For the Year Ended December 31</b>	
	<b>2015</b>	<b>2014</b>
Short-term employment benefits	\$ 95,935	\$ 74,916
Post-employment benefits	19,953	338
Share - based payments	<u>-</u>	<u>1,980</u>
	<u>\$ 115,888</u>	<u>\$ 77,234</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. And the remuneration was resolved by the board of directors.

**28. PLEDGED AND COLLATERALIZED ASSETS**

Please refer to Note 6, Note 11, Note 15 and Note 17.

**29. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS**

- a. Amounts available under unused letters of credit as of December 31, 2015 were approximately US\$8,264 thousand, JPY31,040 thousand and EUR46 thousand.

b. Signed construction contract

	Total Contract Price	Payment as of December 31, 2015
TASA Construction Corporation	<u>\$ 1,140,000</u>	<u>\$ 513,821</u>

### 30. FINANCIAL INSTRUMENT

a. Fair value of financial instruments

1) Valuation techniques and assumptions used in fair value measurement

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

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes publicly traded stocks, mutual funds and convertible bonds).
- Forward exchange contracts and cross currency swap contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.
- The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

2) Fair value measurements recognized in the consolidated balance sheets

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from 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
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

Fair value hierarchy as at December 31, 2015

	Carrying Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
<u>Held-to-maturity investments</u>					
Domestic listed securities					
Financial bonds	<u>\$ 99,900</u>	<u>\$ 99,565</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 99,565</u>

Fair value hierarchy as at December 31, 2014

	Carrying Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
<u>Held-to-maturity investments</u>					
Domestic listed securities					
Financial bonds	\$ 101,840	\$ 101,842	\$ -	\$ -	\$ 101,842

2) Fair value of financial instruments that are measured at fair value

Fair value hierarchy as at December 31, 2015

	Level 1	Level 2	Level 3	Total
<u>Available-for-sale financial assets</u>				
Domestic listed securities				
Equity securities	\$ 2,441,832	\$ -	\$ -	\$ 2,441,832
<u>Financial liabilities at FVTPL</u>				
Derivative financial liabilities (not under hedge accounting)	\$ -	\$ 21,048	\$ -	\$ 21,048

Fair value hierarchy as at December 31, 2014

	Level 1	Level 2	Level 3	Total
<u>Available-for-sale financial assets</u>				
Domestic listed securities				
Equity securities	\$ 2,826,103	\$ -	\$ -	\$ 2,826,103
<u>Financial liabilities at FVTPL</u>				
Derivative financial liabilities (not under hedge accounting)	\$ -	\$ 11,253	\$ -	\$ 11,253

There were no transfers between the levels in 2015 and 2014, respectively.

b. Categories of financial instruments

Fair values of financial instruments were summarized as follows:

	December 31			
	2015		2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Financial assets</u>				
Loans and receivables				
Cash and cash equivalents	\$ 3,634,615	\$ 3,634,615	\$ 4,146,238	\$ 4,146,238
Notes and accounts receivable (included related parties)	4,122,822	4,122,822	4,518,897	4,518,897
Other receivables	514,417	514,417	250,428	250,428
Refundable deposits (recorded in other non-current assets)	90,964	90,964	77,453	77,453
Finance lease receivable (recorded in other non-current assets)	76,732	76,732	528,789	528,789

(Continued)

	December 31			
	2015		2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Available-for-sale financial assets	\$ 2,441,832	\$ 2,441,832	\$ 2,826,103	\$ 2,826,103
Held-to-maturity financial assets	99,900	99,565	101,840	101,842
Financial assets measured at cost	80,161	80,161	40,161	40,161
<u>Financial liabilities</u>				
Measured at amortized cost				
Short-term borrowings	-	-	390,213	390,213
Notes and accounts payable (included related parties)	3,903,706	3,903,706	3,924,847	3,924,847
Payable on equipment and other payables	2,521,296	2,521,296	2,916,759	2,916,759
Long-term borrowings (included current portion)	13,136,527	13,136,527	15,693,790	15,693,790
Financial liabilities at FVTPL	21,048	21,048	11,253	11,253
				(Concluded)

c. Financial risk management objectives and policies

The Company's major financial instruments included equity and debt investments, borrowings, accounts receivable and accounts payable. The Company's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk, credit risk and liquidity risk.

The use of financial derivatives was governed by the Company's policies approved by the board of directors, which provided 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 exchange rate risk on export.

There had been no change to the Company's exposure to market risks or the manner in which these risks were managed and measured.

a) Foreign currency risk

The Company uses forward foreign exchange contracts to hedge the exchange rate risk within approved policy parameters utilizing forward foreign exchange contracts.

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 U.S. dollars, there would be impact on net income in the amounts of \$28,964 thousand and \$19,400 thousand increase for the years ended December 31, 2015 and 2014.

b) Interest rate risk

The Company's interest rate risk arises primarily from floating rate deposits and borrowings.

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

	<u>December 31</u>	
	2015	2014
Cash flow interest rate risk		
Financial assets	\$ 493	\$ 493
Financial liabilities	13,136,527	16,076,913

The sensitivity analyses below were determined based on the Company's exposure to interest rates for fair value of variable-rate derivatives instruments at the end of the reporting period. If interest rates had been higher by one percentage point, the Company's cash flows for the years ended December 31, 2015 and 2014 would increase by \$131,360 thousand and \$160,764 thousand, respectively.

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company.

The Company adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. In order to minimize credit risk, the management of the Company has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue receivables. In addition, the Company reviews the recoverable amount of each individual accounts receivable at the end of the reporting period to ensure that adequate impairment losses are recognized for irrecoverable amounts. In this regard, the directors 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:

	<u>December 31, 2015</u>			
	<u>Within 1 Year</u>	<u>1-2 Years</u>	<u>Over 2 Years</u>	<u>Total</u>
<u>Non-derivative financial liabilities</u>				
Non-interest bearing	\$ 6,425,002	\$ -	\$ -	\$ 6,425,002
Variable interest rate liabilities	<u>4,352,267</u>	<u>3,090,180</u>	<u>5,694,080</u>	<u>13,136,527</u>
	<u>\$ 10,777,269</u>	<u>\$ 3,090,180</u>	<u>\$ 5,694,080</u>	<u>\$ 19,561,529</u>



	December 31, 2014			
	Within 1 Year	1-2 Years	Over 2 Years	Total
<u>Non-derivative financial liabilities</u>				
Non-interest bearing	\$ 6,841,606	\$ -	\$ -	\$ 6,841,606
Variable interest rate liabilities	6,262,883	4,029,770	5,784,260	16,076,913
Fixed interest rate liabilities	7,090	-	-	7,090
	<u>\$ 13,111,579</u>	<u>\$ 4,029,770</u>	<u>\$ 5,784,260</u>	<u>\$ 22,925,609</u>

### 31. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

	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	\$ 158,458	32.825	\$ 5,201,376	\$ 158,037	31.65	\$ 5,001,876
EUR	1,668	35.88	59,848	1,779	38.47	68,432
JPY	1,103,491	0.2727	300,922	2,463,986	0.2646	651,971
RMB	70,992	4.995	354,605	62,863	5.092	320,096
Non-monetary items						
ILS	3,774	8.4085	31,730	3,189	8.1478	25,983
<u>Financial liabilities</u>						
Monetary items						
USD	70,220	32.825	2,304,985	96,740	31.65	3,061,835
EUR	1,871	35.88	67,146	2,289	38.47	88,067
JPY	955,934	0.2727	260,683	2,659,832	0.2646	703,792

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

Foreign Currencies	For the Year Ended December 31	
	2015	2014
USD	\$ 144,843	\$ 153,487
JPY	2,703	25,446
RMB	(11,525)	16,764
	<u>\$ 136,021</u>	<u>\$ 195,697</u>