Appendix 1. Consolidated financial statements audited by the external auditor in the most recent year

MEGAWIN Technology Co., Ltd. and its subsidiaries

Consolidated financial statements and auditor's report

2016 and 2015

Address: 7F-1, No. 8, Taiyun 1st St., Zhubei City, Hsinchu County

Tel. No.: (03)5601501

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Statement of Declaration

The Company is required to prepare consolidated financial statements for 2016 (from January 1 to December 31, 2016) with its subsidiaries under the "Standards for the Preparation of Consolidated Reports on Operations, Consolidated Financial Statements, and Reports on the Affiliations between Parent Companies and Subsidiaries". Subsidiaries of the Company under said rules are identical with the subsidiaries defined under IFRS No. 10. Information on the Financial Status and operation performance of such subsidiaries has been included in the disclosure of the aforementioned consolidated financial statement between the parent company and subsidiaries and therefore will not be prepared separately.

Declared as above.

Company name: MEGAWIN Technology Co., Ltd.

Responsible person: Wen, Kuo-Liang

February 14, 2017

Auditor's report

To: MEGAWIN Technology Co., Ltd.

Opinion

We have audited the accompanying consolidated balance sheet of MEGAWIN Technology Co., Ltd. and its subsidiaries as of December 31, 2016 and 2015, and the consolidated comprehensive income statement, consolidated statement of changes in equity, and consolidated cash flow statement from January 1 to December 31, 2016 and 2015, as well as the notes to the consolidated financial statements (including the summary of significant accounting policies).

In our opinion, said consolidated financial statements present fairly, in all material respects, the consolidated financial position of MEGAWIN Technology Co., Ltd. and its subsidiaries as of December 31, 2016 and 2015, and the results of their consolidated operations and cash flows from January 1 to December 31, 2016 and 2015 in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, IFRSs recognized by FSC, and IAS, interpretations and SIC interpretations.

Basis for the audit opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and the auditing standards generally accepted in the Republic of China. Our responsibilities required under said standards will be detailed in the paragraph about the external auditor’s responsibility on auditing consolidated financial statements. Our firm’s staff subject to the independence requirements have maintained their independent attitude with MEGAWIN Technology Co., Ltd. and its subsidiaries pursuant to the CPAs’ ethical code, and perform the other responsibilities required under said code. We believe that we have obtained sufficient and valid evidence which may afford to serve as the basis for audit opinion.

Key audit matter (KAM)

The key audit matter (KAM) refers to the most important matter included in our audit on the consolidated financial statements for 2016 of MEGAWIN Technology Co., Ltd. and its subsidiaries based on our professional judgment as the CPA. Said matter has been responded to during the overall audit on the consolidated financial statements and preparation of the audit opinion.

We hereby state the key audit matter (KAM) included in our audit on the consolidated financial statements for 2016 of MEGAWIN Technology Co., Ltd. and its subsidiaries based on our professional judgment as the CPA as follows:

KAM 1

1. MEGAWIN Technology Co., Ltd. and its subsidiaries refers to the companies engaged in IC design, whose sales revenue varies depending on their customers' acceptability of products, and stock price as well. Therefore, we presuppose that there might be a risk regarding the management's false reporting of increases in revenue.
2. MEGAWIN Technology Co., Ltd. and its subsidiaries are primarily engaged in selling MCU. About 35% of the products are shipped to customers directly via the IC testing company based in Mainland China, instead of the warehouses of MEGAWIN Technology Co., Ltd. and its subsidiaries. Given this, the closing of revenue might be deferred for the purpose contemplated by the management in the preceding paragraph.
3. Our audit procedure covers:
   (1) Verification of the procedure for recognition of revenue generated from the shipment via the IC testing company and execution of the relevant control tests.
   (2) Checks on whether there is earlier recognition based on the recognized revenue from shipments via the IC testing company in Mainland China on December 31, 2016 and for the previous four days

KAM 2

1. The inventory of MEGAWIN Technology Co., Ltd. and its subsidiaries was valued at NT$70,633 thousand on December 31, 2016. This is considered important to the consolidated financial statements. Please refer to Note 11.

2. MEGAWIN Technology Co., Ltd. and its subsidiaries are engaged in an industry which might suffer slow-moving or obsolete inventory due to changes of technology. That is, the inventory is likely to be unsalable, or needs to be sold at a discount and thereby causes the value of inventory to be less than the book value thereof. For the related accounting policy and important accounting estimation, please see Note 4 and Note 5.
3. Our audit procedure covers:
   (1) We conducted back testing on the inventory evaluation method applied by MEGAWIN Technology Co., Ltd. and its subsidiaries to validate the reasonableness of the estimation.
   (2) In order to test the book value of the inventory, we verified whether the book value is measured at cost or net realizable value, whichever is lower, and evaluate it based on the method applied by MEGAWIN Technology Co., Ltd. and its subsidiaries.

Other matters

We have also audited the individual financial statements of MEGAWIN Technology Co., Ltd. as of and for the years 2016 and 2015, and have issued the auditor's report without a qualified opinion.

Management's and corporate governance unit's responsibility toward consolidated financial statements

The management shall be responsible for preparing the consolidated financial statements which fairly present the company in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, IFRSs recognized by FSC, and IAS, interpretations and SIC interpretations, and maintaining necessary internal controls over preparation of consolidated financial statements to ensure that the consolidated financial statements are free from any misrepresentation resulting from corruption or error.

When preparing the consolidated financial statements, the management shall also be responsible for evaluating the ability to continue operations of MEGAWIN Technology Co., Ltd. and its subsidiaries, disclosure of related matters, and adoption of the basis for continued operations, unless the management intends to liquidate MEGAWIN Technology Co., Ltd. and its subsidiaries, or wind up, or there is not any available program other than liquidation or windup.

The corporate governance unit of MEGAWIN Technology Co., Ltd. and its subsidiaries shall be responsible for supervising the financial reporting procedure.

External auditor's responsibilities toward consolidated financial statements

We conduct the audit on the consolidated financial statements in order to obtain reasonable assurance about whether the consolidated financial statements are free from any misrepresentation resulting from corruption or error, and to issue the auditor's report. The reasonable assurance means high assurance. Notwithstanding, the audit conducted in conformity of the auditing standards generally accepted in the Republic of China doesn't warrant discovery of any misrepresentation in the consolidated financial statements. The misrepresentation might result from corruption or error. Where the misrepresented amount or summarization may be reasonably expected to affect the economic decision made by users of the consolidated financial statements, such misrepresentation would be considered material.

We exercise our professional judgment and keep suspicious professionally when conducting the audit in accordance with the auditing standards generally accepted in the Republic of China. We also execute the following work:

1. To identify and evaluate the risk over misrepresentation in the consolidated financial statements resulting from corruption or error, we designed and implemented adequate countermeasures against the evaluated risk, and obtained sufficient and valid evidence which may afford to serve as the basis for our audit opinion. As corruption might involve conspiracy, forgery, intentional omission, misrepresentation or failure to comply with internal control, the risk over failure to detect the material misrepresentation resulting from corruption is higher than that over the misrepresentation resulting from error.
2. To obtain the necessary understanding about the internal control critical to the audit in order to design a suitable audit procedure under the circumstances, but not to express an opinion on the validity of the internal control of MEGAWIN Technology Co., Ltd. and its subsidiaries.
3. To evaluate the validity of the accounting policies adopted by the management, and reasonableness of the accounting estimation and disclosure made by the management.
4. To conclude the validity of the accounting basis for continued operations applied by the management, and the existence of uncertainty regarding events or

circumstances which might raise material doubt over the ability to continue operations of MEGAWIN Technology Co., Ltd. and its subsidiaries, based on the evidence obtained by us. Where we believe that some material uncertainty exists in the event or circumstance, we shall remind the users of the consolidated financial statements in our audit report to note the disclosures related to the consolidated financial statements, or modify the audit opinion if the disclosure is considered inadequate. Our conclusion is made based on the evidence available until the date of audit report. Notwithstanding, the future event or circumstance might result in failure of MEGAWIN Technology Co., Ltd. and its subsidiaries to continue operations.

5. To evaluate the overall expression, structure and contents of the consolidated financial statements (including related notes hereto), and whether the consolidated financial statements adequately express the related transactions and events.
6. To obtain sufficient and adequate evidence toward the individual financial information of MEGAWIN Technology Co., Ltd. and its subsidiaries to comment on the consolidated financial statements. We are responsible for directing, supervising and conducting the audit on MEGAWIN Technology Co., Ltd. and its subsidiaries, and producing the audit opinion on MEGAWIN Technology Co., Ltd. and its subsidiaries.

The matters communicated between the corporate governance unit and us include the range and time of the planned audit, and material audit findings (including the significant non-conformance in internal control identified in the process of audit).

We also provide the corporate governance unit with the statement of declaration for the compliance of our staff subject to the independence requirements with the independence requirements defined in the CPA's ethical code, and also communicate with the corporate governance unit about the relationships and other matters which are considered potentially affecting the CPA's independence (including related preventive measures).

We decided the key audit matter (KAM) included in our audit on the consolidated financial statements for 2016 of MEGAWIN Technology Co., Ltd. and its subsidiaries based on the matters communicated between the corporate governance unit and us. We state the matters in our audit report, unless the laws prohibit disclosure of specific matters, or in some extraordinary circumstance, we decide not to communicate the specific matters in the audit report, as we reasonably expect that the adverse effect arising from the communication is greater than the public interest advanced therefor.

Deloitte & Touche

Tsai, Mei-Chen, CPA	Yeh, Dong-Hui, CPA
FSC Approval No. Chin-Kuan-Cheng-Shen-Tzu No. 1010028123	FSC Approval No. Chin-Kuan-Cheng-Shen-Tzu No. 0980032818

February 14, 2017

MEGAWIN Technology Co., Ltd. and its subsidiaries

Consolidated balance sheet

December 31, 2016 and 2015

Unit: NT$ thousand

Code	Assets	December 31, 2016 Amount	%	December 31, 2015 Amount	%
	Current assets				
1100	Cash and cash equivalents (Notes 4, 6 and 26)	$ 155,460	23	$ 241,134	35
1147	Investments in Debt Securities with No Active Market-current (Notes 4, 9 and 26)	120,892	18	87,321	13
1170	Receivable notes and accounts (Notes 4, 10 and 26)	103,202	16	82,085	12
130X	Inventory (Notes 4, 5 and 11)	70,633	11	53,763	8
1479	Other current assets (Note 15)	7,003	1	5,139	1
11XX	Total current assets	457,190	69	469,442	69
	Non-current assets				
1523	Financial assets in available-for-sale - noncurrent (Notes 4,8 and 26)	-	-	1,046	-
1600	Property, plant and equipment (Notes 4, 13 and 28)	177,251	27	182,486	27
1780	Intangible assets (Notes 4 and 14)	24,844	4	25,560	4
1920	Refundable deposit (Note 26)	491	-	521	-
15XX	Total noncurrent assets	202,586	31	209,613	31
1XXX	Total assets	$ 659,776	100	$ 679,055	100

Code	Liabilities and equity	December 31, 2016 Amount	%	December 31, 2015 Amount	%
	Current liabilities				
2100	Payable accounts (Notes 4, 16, 26 and 28)	$ -	-	$ 30,000	4
2120	Financial liabilities at fair value through profit or loss (Notes 4, 7 and 26)	461	-	-	-
2170	Payable accounts (Notes 4, 17 and 26)	65,097	10	56,494	8
2200	Other payables (Notes 4, 18 and 26)	47,003	7	50,913	8
2230	Income tax liabilities (Notes 4 and 23)	3,715	1	10,723	2
2300	Other current liabilities (Note 18)	2,443	-	2,348	-
21XX	Total current liabilities	118,719	18	150,478	22
	Non-current liabilities				
2640	Net defined benefit liabilities -noncurrent (Notes 4 and 19)				-
2645	Guarantee deposit received (Note 26)	4,384	-	4,475	1
25XX	Total noncurrent liabilities	9,275	1	8,204	1
2XXX	Total liabilities	127,994	19	158,682	23
	Equity attributable to owners of the parent (Notes 4 and 20)				
	Capital stock				
3110	Capital stock - common stock	392,999	60	392,999	58
3200	Capital surplus	46,702	7	40,339	6
	Total retained earnings				
3310	Legal reserve	37,445	6	33,464	5
3350	Undistributed earnings (Note 23)	54,813	8	65,019	10
3300	Total retained earnings	92,258	14	98,483	15
3400	Other equity	(177)	-	755	-
3500	Treasury stock	-	-	(12,203)	(2)
31XX	Total equity attributable to the parent	531,782	81	520,373	77
3XXX	Total equity	531,782	81	520,373	77
	Total liabilities and equity	$659,776	100	$ 679,055	100

The following notes constitute a part of the consolidated financial statements.

Chairman: Wen, Kuo-Liang　　President: Chiu, Shan-Wen　　Chief Accountant: Hong, Hsien-Ling

MEGAWIN Technology Co., Ltd. and its subsidiaries

Consolidated comprehensive income statement

January 1~December 31, 2016 and 2015

Unit: NT$ thousand, except EPS (NT$)

		2016		2015	
Code		Amount	%	Amount	%
4000	Operating revenue, net (Notes 4 and 21)	$ 602,098	100	$ 571,986	100
5000	Operating cost (Notes 11 and 22)	(388,619)	(65)	(356,924)	(62)
5900	Gross profit	213,479	35	215,062	38
	Operating expenses (Note 22)				
6100	Selling expenses	(26,892)	(4)	(25,201)	(5)
6200	Administrative expenses	(69,797)	(12)	(68,620)	(12)
6300	R&D expenses	(85,553)	(14)	(80,243)	(14)
6000	Total operating expenses	(182,242)	(30)	(174,064)	(31)
6900	Operating income	31,237	5	40,998	7
	Non-operating revenue and expenditure				
7010	Other revenues (Note 22)	4,634	1	9,686	2
7020	Other gains and losses (Note 22)	(5,376)	(1)	194	-
7050	Financial cost (Note 22)	(6)	-	(212)	-
7000	Total non-operating revenue and expenditure	(748)	-	9,668	2
7900	Net profit before tax	30,489	5	50,666	9
7950	Income tax expenses (Notes 4 and 23)	(4,510)	(1)	(10,857)	(2)
8200	Net profit this year	25,979	4	39,809	7

(Continued)

(Brought forward)

Code		2016 Amount	2016 %	2015 Amount	2015 %
	Other comprehensive income (Note 4)				
	Titles not reclassified into income:				
8311	Remeasurement of defined benefit plan (Note 19)	($ 1,535)	-	($ 1,549)	-
	Titles probably reclassified into income subsequently:				
8361	Exchange differences on translation of foreign financial statements	(932)	-	(53)	-
8300	Other comprehensive income this year (net after tax)	(2,467)	-	(1,602)	-
8500	Total comprehensive income this year	$ 23,512	4	$ 38,207	7
	Net profit attributable to:				
8610	Owners of the parent	$ 25,979	4	$ 39,809	7
8620	Non-controlling equity	-	-	-	-
8600		$ 25,979	4	$ 39,809	7
	Total comprehensive income attributable to:				
8710	Owners of the parent	$ 23,512	4	$ 38,207	7
8720	Non-controlling equity	-	-	-	-
8700		$ 23,512	4	$ 38,207	7
	EPS (Note 24)				
9750	Basic	$ 0.67		$ 1.04	
9850	Diluted	$ 0.66		$ 1.02	

The following notes constitute a part of the consolidated financial statements.

Chairman: Wen, Kuo-Liang President: Chiu, Shan-Wen Chief Accountant: Hong, Hsien-Ling

MEGAWIN Technology Co., Ltd. and its subsidiaries

Consolidated Statement of Changes in Equity

January 1~December 31, 2016 and 2015

Unit: NT$ thousand

		Equity attributable to owners of the parent						
				Retained earnings		Other equity		
Code		Capital stock	Capital surplus	Legal reserve	Undistributed earnings	Foreign operations Translation of financial statements Exchange differences	Treasury stock	Total equity
A1	Balance, January 1, 2015	$ 345,309	$ 17,029	$ 27,728	$ 70,831	$ 808	($ 13,420)	$ 448,285
	Appropriation and distribution of retained earnings 2014							
B1	Legal reserve	-	-	5,736	(5,736)	-	-	-
B5	Cash dividend	-	-	-	(38,336)	-	-	(38,336)
D1	Net profit 2015	-	-	-	39,809	-	-	39,809
D3	Other comprehensive income after tax 2015	-	-	-	(1,549)	(53)	-	(1,602)
D5	Total comprehensive income 2015	-	-	-	38,260	(53)	-	38,207
E1	Capital increase in cash	50,000	22,000	-	-	-	-	72,000
L3	Cancellation of treasury stock	(2,310)	1,093	-	-	-	1,217	-
N1	Compensatory Cost	-	217	-	-	-	-	217
Z1	Balance, December 31, 2015	392,999	40,339	33,464	65,019	755	(12,203)	520,373
	Appropriation and distribution of retained earnings 2015							
B1	Legal reserve	-	-	3,981	(3,981)	-	-	-
B5	Cash dividend	-	-	-	(30,669)	-	-	(30,669)
D1	Net profit 2016	-	-	-	25,979	-	-	25,979
D3	Other comprehensive income after tax 2016	-	-	-	(1,535)	(932)	-	(2,467)
D5	Total comprehensive income 2016	-	-	-	24,444	(932)	-	23,512
N1	Compensatory Cost	-	6,227	-	-	-	-	6,227
N1	Treasury stock transferred to employees	-	136	-	-	-	12,203	12,339
Z1	Balance, December 31, 2016	$ 392,999	$ 46,702	$ 37,445	$ 54,813	($ 177)	$ -	$ 531,782

The following notes constitute a part of the consolidated financial statements.

Chairman: Wen, Kuo-Liang President: Chiu, Shan-Wen Chief Accountant: Hong, Hsien-Ling

MEGAWIN Technology Co., Ltd. and its subsidiaries

Consolidated Statement of Cash flow

January 1~December 31, 2016 and 2015

Unit: NT$ thousand

Code		2016	2015
	Cash flow from operating activities		
A10000	Net profit before tax this year	$ 30,489	$ 50,666
	Income Charges (Credits)		
A20100	Depreciation expenses	7,668	7,192
A20200	Amortization expenses	3,296	2,557
A20400	Net loss from financial liabilities at fair value through profit or loss	461	-
A20900	Financial cost	6	212
A20300	Bad debt expenses	643	342
A21200	Interest revenue	(2,369)	(3,132)
A21900	Share-based payment remuneration cost	6,227	217
A22500	Loss from disposition and scrapping of Property, plant and equipment	-	39
A23100	Gain from disposition of investment	(1,000)	-
A23500	Loss of impairment on financial liabilities	1,046	235
A23700	Loss from price declination and scrapping (gain from reversal) of inventory	(1,692)	6,203
A24100	Unrealized gain from foreign currency exchange	(851)	(164)
	Variances in assets/liabilities related to operating activities		
A31150	Receivable notes and accounts	(20,873)	(9,798)
A31200	Inventory	(15,178)	3,717
A31240	Other current assets	(1,798)	33
A32150	Payable accounts	7,813	1,749
A32180	Other payables	(3,908)	3,019
A32230	Other current liabilities	95	(751)
A32240	Net defined benefit liabilities	(373)	(613)
A33000	Cash inflow from operations	9,702	61,723
A33100	Collected interest	2,303	3,539
A33300	Paid interest	(6)	(212)
A33500	Paid income tax	(11,518)	(1,131)
AAAA	Net cash inflow from operating activities	481	63,919

(Continued)

(Brought forward)

Code		2016	2015
	Cash flow from investing activities		
B00400	Proceeds from financial assets in available-for-sale	$ 1,000	$ -
B00600	Acquisition of investments in Debt Instrument with No Active Market	(33,571)	(3,515)
B02700	Acquisition of property, plant and equipment	(2,491)	(4,103)
B02800	Disposition of property, plant and equipment	-	1
B03700	Increase in refundable deposit	-	(22)
B03800	Decrease in refundable deposit	30	-
B04500	Acquisition of intangible assets	(2,587)	(1,487)
B07200	Decrease in prepayment for equipment	-	555
BBBB	Net cash outflow from investing activities	(37,619)	(8,571)
	Cash flow from financing activities		
C00100	Increase in short-term loan	-	30,000
C00200	Decrease in short-term loan	(30,000)	-
C01700	Repayment of long-term loan	-	(60,000)
C03100	Decrease in guarantee deposit received	(91)	(45)
C04500	Allocation of cash dividend	(30,669)	(38,336)
C04600	Capital increase in cash	-	72,000
C05100	Employees' subscription for treasury stock	12,339	-
CCCC	Net cash inflow (outflow) from financing activities	(48,421)	3,619
DDDD	Effect of changes in foreign exchange rate on cash and cash equivalents	(115)	(31)
EEEE	Net increase (decrease) in cash and cash equivalents	(85,674)	58,936
E00100	Balance of cash and cash equivalents, beginning	241,134	182,198
E00200	Balance of cash and cash equivalents, ending	$ 155,460	$ 241,134

The following notes constitute a part of the consolidated financial statements.

Chairman: Wen, Kuo-Liang President: Chiu, Shan-Wen Chief Accountant: Hong, Hsien-Ling

MEGAWIN Technology Co., Ltd. and its subsidiaries

Notes to consolidated financial statements

January 1~December 31, 2016 and 2015

(NT$ thousand, unless otherwise specified)

1. Corporate milestones

MEGAWIN Technology Co., Ltd. (hereinafter referred to as the "Company") was founded on June 21, 1999, primarily engaged in manufacturing and selling electronic instruments and spare parts thereof.

The Company was approved by TPEx to trade at the TPEx in January 2015.

The consolidated financial statements are expressed in the Company’s functional currency, NTD.

2. Date and procedure for ratification of the financial reports

The consolidated financial statements were ratified and promulgated by the Board of Directors on February 14, 2017.

3. Application of new and amended standards and interpretations

(1) The amended Regulations Governing the Preparation of Financial Reports by Securities Issuers which have not yet become effective, and IFRS, IAS, IFRIC and SIC of 2017 approved by FSC.

According to the official letters under Ching-Kuan-Cheng-Sheng-Tzu No. 1050050021 and Ching-Kuan-Cheng-Sheng-Tzu No. 1050026834 issued by the Financial Supervisory Commission (“FSC”), the Company and the entities controlled by the Company (hereinafter referred to as the "consolidated companies") shall start to apply the IFRS, IAS, IFRIC and SIC of 106 (hereinafter referred to as “IFRSs”) released by IASB and approved by FSC, as well as the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers, as of 2017.

New/amended/modified standards and interpretations	Effective date released by IASB (Note 1)
“Improvement from 2010 to 2012”	July 01, 2014 (Note 2)
“Improvement from 2011 to 2013”	July 01, 2014
“Improvement from 2012 to 2014”	January 1, 2016 (Note 3)
Amendments to IFRS 10, IFRS 12 and IAS 28 “Investment Entity: Application of Exceptions for Consolidated Financial Statements”	January 1, 2016
Amendments to IFRS 11 “Acquisition of an	January 1, 2016

New/amended/modified standards and interpretations	Effective date released by IASB (Note 1)
Interest in a Joint Operation"	
IFRS 14 “Regulatory Deferral Accounts”	January 1, 2016
Amendments to IAS 1 “Disclosure Initiative ”	January 1, 2016

(Continued)

(Brought forward)

New/amended/modified standards and interpretations	Effective date released by IASB (Note 1)
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 01, 2016
Amendments to IAS 16 and IAS 41 "Agriculture: Productive Plants”	January 01, 2016
Amendments to IAS 19 “Defined Benefit Plans: Employee Contributions”	July 01, 2014
Amendments to IAS 27 “Equity Method in Separate Financial Statement”	January 01, 2016
Amendments to IAS 36 “Disclosure of Recoverable Amount of Non-Financial Assets”	January 01, 2014
Amendments to IAS 39 “Novation of Derivatives and Continuance of Hedge Accounting”	January 01, 2014
IFRIC 21 “Levies”	January 01, 2014

Note 1: Unless otherwise specified, said new/amended/modified standards or interpretations shall become effective during the years or periods ended after said respective date.

Note 2: Share-based payment transactions for which the grant date is after July 1, 2014 shall start to apply the amendments to IFRS 2. Business mergers for which the acquisition date is after July 1, 2014 shall start to apply the amendments to IFRS 3. The amendments to IFRS 13 shall become effective immediately. The other amendments shall apply during the years or periods starting after July 1, 2014.

Note 3: Except for the amendments to IFRS 5, which are deferred and apply during the years or periods starting after January 1, 2016, the other amendments apply during the years or periods starting after January 1, 2016, retroactively.

Except the following notes, the application of the amended Regulations Governing the Preparation of Financial Reports by Securities Issuers and

IFRSs of 2017 do not cause material changes to the Company's accounting policy:

1. Amendments to IAS 36 “Disclosure of Recoverable Amount of Non-Financial Assets”

   The amendments to IAS 36 are intended to clarify that the consolidated companies only need to disclose the collectible amount in the period when impairment loss is recognized or reversed. Said amendments will be applied retroactively as of 2017.

2. Improvement from 2010 to 2012

   The improvement from 2010 to 2012 includes the amendments to IFRS 2 "SHARE-BASED PAYMENT", IFRS 3 "Business Combinations" and IFRS 8 "Operating Segments".

   When the amendments to IFRS 13 are applied retroactively in 2017, the short-term accounts receivables and payables without fixed interest rates upon which the discounting effect is immaterial will be measured based on the original invoicing amount.

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

   According to the Amendments, some accounting titles and requirements about the disclosure of non-financial assets were added to be in line with the IFRSs applied as of 2017. Meanwhile, to be in line with the implementation of the IFRSs domestically, the Company also emphasized certain requirements about recognition and measurement, and also added the disclosure of transactions with related parties and goodwill.

   Per the amendments, where the board chairman or president of another company or institution is the same person as the board chairman or president of the consolidated company, or is the spouse or a relative within the second degree or closer of the board chairman or president of the consolidated company, they shall be deemed to have a substantive related party relationship, unless it can be established that no control or significant influence exists. Meanwhile, the amendments require that the information on the name and relationship of the related party who engages in important transactions with the consolidated company shall be disclosed, and where the transaction amount or balance of any single related party reaches 10 percent or more of the consolidated company's total transaction amount or balance of that type of transaction, the name of each such related party shall be individually presented.

When said amendments are retroactively applied as of 2017, the disclosure about transactions with related parties will be added accordingly.

In addition to said effects, until the date when the consolidated financial statements were promulgated, the consolidated companies still continue to evaluate the effect produced by the Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the amendments to the IFRSs applied as of 2017 to the financial status and performance. The related effects will be disclosed upon completion of the evaluation.

(2) IFRSs promulgated by IASB but not yet recognized by the FSC

The consolidated companies do not apply the following IFRSs promulgated by IASB but not yet recognized by the FSC. Before the date when the consolidated financial statements were promulgated, FSC has not yet promulgated the effective dates for the other standards, except that IFRS 9 and IFRS 15 should be applied as of 2018.

New/amended/modified standards and interpretations	Effective date released by IASB (Note 1)
"Improvement from 2014 to 2016"	Note 2
Amendments to IFRS2: "Classification and Measurement of Share-based Payment Transactions"	January 01, 2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 01, 2018
IFRS 9 "Financial instruments"	January 01, 2018
Amendments to IFRS 9 and IFRS 7 "Compulsory Effective Date and Transitional Disclosure"	January 01, 2018
Amendments to IFRS 10 and IAS 28 "Sale or Investment of Assets between Investors and Their Affiliates or Joint Ventures"	Pending

New/amended/modified standards and interpretations	Effective date released by IASB (Note 1)
IFRS 15 “Revenue from Contracts with Customers”	January 01, 2018
Amendments to IFRS 15 “Clarifications to IFRS 15”	January 01, 2018
IFRS 16 "Lease"	January 01, 2019
Amendments to IAS 7 “Disclosure Initiative ”	January 01, 2017

(Continued)
(Brought forward)

New/amended/modified standards and interpretations	Effective date released by IASB (Note 1)
Amendments to IAS 12 "Recognition of Deferred Income Tax Assets of Unrealized Loss"	January 01, 2017
Amendments to IAS 40 “Conversion of Investment Property”	January 01, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 01, 2018

Note 1: Unless otherwise specified, said new/amended/modified standards or interpretations shall become effective during the years or periods ended after said respective date.

Note 2: The amendments to IFRS 12 are retroactively applied as of January 1, 2017. The amendments to IAS 28 are retroactively applied as of January 1, 2018.

1. IFRS 9 "Financial instruments"

<u>Recognition and measurement of financial assets</u>

Any financial assets applicable under IAS 39 "Financial Instruments: Recognition and Measurement" originally shall be measured based on amortized cost or fair value subsequently. The financial assets are classified in the following manner under IFRS9:

If the contractual cash flows for the bond instruments invested by the consolidated companies are solely for the purpose of payments of principal and interest on the principal amount outstanding, the instruments shall be classified and measured as following:

(1) If the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows, the financial assets shall be measured at amortized cost. The interest revenue

from such financial assets is stated into income based on effective interest rate subsequently. The impairment thereof is evaluated continuously and the impairment income is stated into income.

(2) If the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows and sell the financial assets, the financial assets shall be measured at fair value through other comprehensive income. The interest revenue from such financial assets is stated into income based on effective interest rate subsequently. The impairment thereof is evaluated continuously and the impairment income and exchange income are stated into income, while the other changes in fair value are stated into other comprehensive income. When derecognizing or reclassifying the financial asset, the accumulated changes in fair value of other comprehensive income shall be reclassified into income.

The financial assets invested by the consolidated companies refer to those other than said assets and are measured at fair value. The changes in fair value are stated into income. Notwithstanding, the consolidated companies may designate the investment other than equity investment held for trading to be measured at fair value through other comprehensive income at the time of initial recognition. Except the income from stock dividend on such financial assets which is stated into income, the other related gains and losses are stated into other comprehensive income. No impairment shall be evaluated subsequently. The accumulated changes in fair value of other comprehensive income need not to be reclassified into income either.

Impairment on financial assets

IFRS 9 adopts the "Expected Credit Loss Model" instead to recognize the impairment on financial assets. Allowance for credit loss shall be recognized for financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income compulsorily, receivable leasehold payment, the contractual assets generated from IFRS 15 "Revenue from Contracts with

Customers", or contracts for commitment of loaning and financial guarantees. If the credit risk over said financial assets is not increased significantly after the initial recognition, the allowance for credit loss shall be measured based on the expected credit loss for the following 12 months. If the credit risk over said financial assets is increased significantly after the initial recognition, which is not considered low credit risk, the allowance for credit loss shall be measured based on the expected credit loss for the residual period of the duration of the contract. Notwithstanding, for the receivable accounts excluding important financial elements, the allowance for credit loss shall be measured based on the expected credit loss for the duration of the contract.

Meanwhile, for the financial assets on which credit impairment has been recognized at the time of initial recognition, the consolidated companies take the expected credit loss recognized initially to calculate the effective interest rate upon adjustment of credit, and the subsequent allowance for credit loss is measured based on the accumulated changes in subsequent expected credit loss.

Transitional provisions

After IFRS 9 takes effect, the titles which are derecognized prior to the date of the first application shall not be applicable. Classification, measurement and impairment of the financial assets shall be applied retroactively. Notwithstanding, it is not necessary for the consolidated companies to re-prepare those for the comparative periods, but to state the accumulated effects which are applicable for the first time on the date of the first-time application. Application of the general hedging accounting shall be deferred. Notwithstanding, the recognition of income from hedging options shall be applied retroactively.

2. IFRS 15 “Revenue from Contracts with Customers” and related amendments thereto

   IFRS 15 governs the recognition of revenue from contracts with customers, which will replace IAS 18 "Revenue", IAS 11 "Construction Contracts" and related interpretations.

Upon application of IFRS 15, the consolidated companies state the revenue in the following manners:

(1) Identify the contract(s) with a customer;
(2) Identify the performance obligations in the contract;
(3) Determine the transaction price;
(4) Allocate the transaction price to the performance obligations in the contract; and
(5) Recognize revenue when (or as) the entity satisfies a performance obligation.

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

After IFRS 15 and related amendments thereto became effective, the consolidated companies could choose to retroactively apply the standard until the comparative period, or state the accumulated effects for the first-time application on the first-application date.

3. IFRS 16 "Lease"

IFRS 16 governs accounting for leases, which will be replaced by IAS 17 “Lease” and related interpretations.

When applying IFRS 16, where the consolidated company acts as a lessor, small-sum leases and short-term leases may be treated as operating leases similar to those under IAS 17, while the other leases shall be stated as assets and liabilities of the lease on the consolidated balance sheet. The consolidated income statement shall express the depreciation expenses of the leased assets and interest expenses on the liabilities of the lease calculated at the valid interest rate. In the consolidated cash flow statement, the repayment of principal of the liabilities shall be stated as financing activity, and payment of interest shall be stated as operating activity.

The accounting treatment which holds the consolidated company as the lessor is expected to render no material effect.

After IFRS 16 became effective, the consolidated companies may choose to retroactively apply the standard until the comparative period, or state the accumulated effects for the first-time application on the first-application date.

4. Amendments to IAS 12 "Recognition of Deferred Income Tax Assets of Unrealized Loss"

The amendments to IAS 12 are intended to clarify that irrelevant with the investment in bond instruments expected to be measured based on fair value through sale or collection of contractual cash flows by the consolidated companies and no matter whether the assets incur unrealized loss or not, the temporary difference shall be decided by the price difference between the fair value of assets and taxation basis.

Meanwhile, unless the tax laws restrict the type of income deductible based on the deductible temporary difference and it is necessary to evaluate whether deferred income tax assets shall be stated based on the deductible temporary difference of the same type, all deductible temporary differences shall be evaluated altogether. When evaluating whether deferred income tax assets shall be stated, if there is sufficient evidence to signify that the consolidated companies are very likely to collect assets at the price higher than book value thereof, the collectible amount of assets to be considered in estimation of future taxable income will not be limited to the book value, and the estimation of taxable income shall exclude the effect generated by reversal of deductible temporary difference.

5. IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

IAS 21 requires that the initial recognition of foreign currency transactions generally records foreign currency transactions using the spot conversion rate to the functional currency on the date of the transaction. IFRIC 22 further details that where an enterprise has prepaid or received consideration in advance prior to the initial recognition of non-monetary assets or liabilities, the date of initial recognition of advance consideration shall be identified as the date of the transaction. Where the enterprise prepays or receives consideration in advance in installments, it shall determine the separate date of transactions for each consideration prepaid or received in advance.

The consolidated company may choose to apply IFRIC 22 retroactively, or defer the application of IFRIC 22 to the date of the first-time application or the commencing date of the comparative period for the financial statements which apply IFRIC 22 for the first time.

In addition to said effects, until the date when the consolidated financial statements were ratified and promulgated, the consolidated companies still continue to evaluate the effect produced by the amendments to the other standards and interpretations to the financial status and performance. The related effects will be disclosed upon completion of the evaluation.

4. Summary of significant accounting policies as follows

(1) Statement of Compliance

The consolidated financial statements are prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs recognized by FSC.

(2) Basis for preparation

Except for financial instruments measured at fair value, the consolidated financial statement was prepared based on the historical cost.

The fair value measurement is categorized into Tier 1~Tier 3, subject to the observable degree and importance:

1. Tier 1 input value: The public quotation for the same financial assets or liabilities in an active market on the date of measurement (without adjustment).
2. Tier 2 input value: The observable input value other than Tier 1 quotations accessed from assets or liabilities directly (e.g., price) or indirectly (e.g., inferred from the price)
3. Tier 3 input value: The non-observable input value of assets or liabilities.

(3) Current and non-current assets and liabilities

Current assets include:

1. Assets primarily held for the purpose of trading;

2. Assets expected to be realized within 12 months after the date of the balance sheet; and
3. Cash or cash equivalents (exclusive of the assets to be used for an exchange or to settle a liability, or otherwise remain restricted at more than 12 months after the date of the balance sheet).

Current liabilities include:

1. Liabilities primarily held for the purpose of trading;
2. Liabilities expected to be repaid within 12 months after the date of the balance sheet; and
3. Liabilities of which the Company does not have an unconditional right to defer settlement for at least 12 months after the date of the balance sheet.

Any liabilities other than the current assets or liabilities shall be classified into noncurrent assets or liabilities.

(4) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and entities controlled by the Company (subsidiaries). The consolidated comprehensive income statement has included the operating income of the acquired or disposed subsidiaries from the date of acquisition or until the date of acquisition. The subsidiaries' financial statements have been adjusted to enable their accounting policies to be consistent with the consolidated companies'.

The transactions, balance of account, income and expense among the entities have been written off when the Company prepared the consolidated financial statements The subsidiaries' total comprehensive income is attributable to the owners of parent and non-controlling equity, even if the non-controlling equity becomes balance of loss therefor.

(5) Foreign currency

The transactions stated in any currency (foreign currency) other than the Company’s functional currency when the Company prepared the separate financial statement shall be re-stated in the functional currency converted based at the foreign exchange rate prevailing on the trading day.

The foreign monetary items shall be converted based on the closing exchange rate on each balance sheet date. The exchange difference derived from settlement of monetary items or conversion of monetary items shall be stated as income in current year.

The non-monetary items at historical cost denominated in foreign currency shall be converted at the exchange rate on the date of transaction.

When the consolidated financial statements were prepared, the assets and liabilities of foreign operations (including subsidiaries situated in the countries where the Company operated using the currency different from that used by the Company) shall be translated into NTD at the exchange rate prevailing on each balance sheet date. The income and expense are translated at the current average exchange rate. The exchange difference generated therefor is stated into other comprehensive income.

(6) Inventory

Inventory includes raw material, products, finished goods and work in process. The inventories shall be stated at the lower of cost and net realizable present value. When the cost and net realizable value are compared, inventory write-downs are made on an item-by-item basis, except where it may be appropriate to group similar or related items. Net realizable value means the estimated selling price of inventories less all estimated costs of completion and necessary selling costs. The cost of inventory shall be calculated under the weighted average method.

(7) Property, plant and equipment

Property, plant and equipment shall be stated at cost initially. The following evaluation is based on the cost less accumulated depreciation and accumulated impairment loss.

The Company provides depreciation for each important element of property, plant and equipment under the straight line method within the expected useful years. The consolidated companies shall review the useful years, residual value and depreciation method at least once at the end of each year, and treat the effect on changes in accounting estimation in a deferral manner.

The price difference between net proceeds from disposition of assets and book value of the assets shall be stated as income, when the property, plant and equipment are derecognized.

(8) Intangible assets

1. Acquired separately

The intangible assets within limited useful years that are acquired separately shall be stated at cost initially. The following evaluation thereof shall be based on the cost less accumulated amortization and accumulated impairment. The intangible assets are amortized under the straight line method within the limit of useful years, and the useful years, residual value and amortization method shall be reviewed at the end of each year. The effect on changes in accounting estimation shall be treated in a deferral manner. The intangible assets within uncertain useful years are stated at cost less accumulated impairment loss.

2. Domestically generated - R&D expenditures

Research expenditure is stated as expenses when it is incurred.

3. Derecognition

The price difference between net proceeds from disposition of assets and book value of the assets shall be stated as income, when the intangible assets are derecognized.

(9) Impairment on tangible and intangible assets

The consolidated companies shall evaluate on each balance sheet date whether there is any sign showing that tangible and intangible assets might suffer impairment. If there is, it is necessary to evaluate the collectible amount of the assets. It is impossible to evaluate the collectible amount of individual asset, the consolidated companies shall evaluate the collectible amount of the cash generation unit vested in the asset.

The collectible amount is the higher of fair value less selling cost and its use value. If the collectible amount of individual asset or cash generation unit is less than the book value of the asset, the book value shall be reduced to the collectible, and the impairment loss is stated as income.

When the impairment loss is reversed subsequently, the book value of the asset or cash generation unit shall be increased to the collectible amount after the amendments, provided that the increased book value shall be no more than the book value of the asset or cash generation unit if no impairment loss was recognized in the previous year (less amortization or depreciation). The reversal of impairment loss is stated as income.

(10) Financial instruments

Financial assets and financial liabilities are stated into the consolidated balance sheet when the consolidated companies became a part to the financial instrument contract.

When recognizing the financial assets or liabilities other than those measured at fair value through profit or loss initially, such assets or liabilities shall be evaluated based on fair value, plus the transaction cost directly attributable to acquisition or issuance of financial assets or financial liabilities. The transaction cost directly attributable to acquisition or issuance of financial assets or financial liabilities at fair value through profit or loss shall be stated as income immediately.

1. Financial assets

The customary transactions of financial assets shall be recognized and derecognized on the date of transaction.

(1) Types of measurement

The financial assets held by the consolidated companies are classified into financial assets in available-for-sale, loans and receivable accounts.

A. Financial assets in available-for-sale

Such financial assets are designated as available-for-sale or are not derivative financial, or are not classified into loans and receivable accounts, held-to-maturity investment or financial assets at fair value through profit or loss.

Financial assets in available-for-sale are measured at fair value. The foreign currency exchange income and interest revenue calculated by the effective interest method in the changes of book value for available-for-sale monetary financial assets, and the stock dividend on available-for-sale equity investments, shall be stated as income. The other changes in the book value of financial assets in available-for-sale are stated in other comprehensive income, reclassified into income at the time of disposition of investment or confirmation of impairment.

B. Loans and receivable accounts

The loans and receivable accounts (including cash and cash equivalents, bond investment without an active market, and receivable notes and accounts) shall be evaluated based on amortized cost less impairment loss under the effective interest method, unless the recognition of the interest on short-term accounts receivable is insignificant.

The cash equivalents include the bank time deposits and Repo that have high liquidity within three months, and may be readily convertible to known amounts of cash and subject to an insignificant risk of changes in value, intended to satisfy the short-term cash commitment.

(2) Impairment on financial assets

The impairment on any financial assets other than financial assets at fair value through profit or loss shall be evaluated on each balance sheet date. If there is any objective evidence showing that the future cash flow of the financial assets is affected due to a single or multiple events occurring after the initial recognition of the financial assets, the financial assets shall be deemed impaired.

If there is not any objective evidence showing impairment on financial assets stated at amortized cost, such as accounts receivable and other accounts receivable, upon individual evaluation, the impairment shall be evaluated again collectively. The combined objective evidence for accounts receivable might include the Company's past experience in collection, the increase in overdue payment, and observable national or regional economic changes related to the defaulted receivable accounts.

The recognized impairment loss on the financial assets measured at amortized cost is the difference in the book value of financial assets and the present value after the projected cash flow is discounted at initial interest rate.

Where the decrease in impairment, if any, when the financial assets are measured at amortized cost is objectively related to the events subsequent to recognition of impairment loss, the impairment loss recognized previously shall be reversed and stated as income directly or via adjustment of the allowance account, provided that the book value of such assets upon the reversal shall be no more than the cost after amortization if the impairment was not recognized.

Meanwhile, the fair value of equity investment in available-for-sale declining drastically or permanently until it is less than the cost of the equity investment also constitutes the objective evidence about of impairment.

The other objective evidence about impairment on financial assets includes obvious financial problems confronting the issuer or debtor, breach (e.g., overdue or non-performance of interest or principal payment), the debtor is likely to wind up or proceed with other financial reorganizations, and the active market of financial assets is extinguished due to financial difficulty.

When the assets in available-for-sale are impaired, the accumulated gain and loss already stated as other comprehensive income will be reclassified as income.

The impairment loss on equity instruments in available-for-sale that was initially recognized as income shall not be reversed. The revaluation of fair value upon recognition of impairment loss, if any, shall be stated as other comprehensive income. If the revaluation of fair value of obligation instruments in available-for-sale is objectively related to the events subsequent to recognition of impairment loss, it shall be reversed and stated as income.

The impairment loss on financial assets shall be deducted from the book value of financial assets, provided that the book value of receivable accounts and other receivable accounts is adjusted through allowance accounts. If the receivable accounts and other receivable accounts are held uncollectible, they shall write off against the allowance accounts. The accounts initially written off but collected afterwards are credited into the allowance accounts. Unless the receivable accounts and other receivable accounts write off against the allowance accounts because they are held uncollectible, the changes in book value of allowance account shall be stated as income.

(3) Derecognition of financial assets

The consolidated companies will derecognize financial assets only when the contractual rights toward the cash flow of the assets are terminated or the financial assets are transferred and the risk and return on the ownership of the assets are transferred to another enterprise.

When derecognizing a single financial asset in whole, the price difference between the book value and collected or collectible total consideration plus the value recognized as other comprehensive income shall be recognized as income.

2. Equity instruments

The obligation and equity instruments issued by the consolidated companies are classified into financial liabilities or equities according to the definitions of the financial liabilities and equity instruments referred to the an agreement.

The equity instruments issued by the consolidated companies shall be recognized based on the payment of acquisition less the directly issuing cost.

The recalled equity instruments of the consolidated companies shall be recognized and derecognized under equity titles. Purchase, sale, issuance or cancellation of the consolidated companies' equity instruments shall not be stated into income.

3. Financial liabilities

(1) Following measurement

All liabilities are measured under the effective interest method at amortized cost, except:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss including financial liabilities held for trading.

The financial liabilities held for trading are measured at fair value. The gains or losses from re-measurement thereof are stated as income. For the approach to determine the fair value, please see Note 26.

(2) Derecognition of financial liabilities

When derecognizing a financial liability in whole, the price difference between the book value and paid consideration (including any transferred assets other than cash or liabilities)) shall be recognized as income.

(11) Recognition of revenue

The revenue is stated at the fair value of received or receivable consideration less the sale returns, sales discount and similar discount. Sales return was provided based on the amount of future returned goods estimated according to past experience and other critical factors reasonably.

1. Sale of goods

The revenue from sale of goods shall be recognized upon satisfaction of the following conditions:

(1) The consolidated companies have transferred major risk and return over the ownership of goods to the buyer;

(2) The consolidated companies discontinued their participation in the management of, or to maintain effective control over, the sold goods;

(3) The revenue may be measured reliably;

(4) The economic effect related to transactions is very likely to flow into the consolidated companies; and

(5) The cost related to transactions, incurred or to be incurred, may be measured reliably.

The major risk and return over ownership of processed goods are not transferred at the time of processing on order, the processing will not be treated as sale of goods.

2. Interest revenue

The interest revenue from financial assets shall be stated when the economic effect is very likely to flow into the consolidated companies and the amount thereof may be measured reliably. The interest revenue shall be stated based on the outstanding capital and applicable valid interest rate on an accrual basis, by the lapse of time.

(12) Employee benefits

1. Short-term employee benefits

Liabilities related to short-term employee benefit shall be measured at non-discounted rate expected to be paid in exchange of employees' services.

2. Termination benefits

The pension under the defined contribution plan shall be stated as current expenses during the employee service years.

The defined benefit cost under the defined benefit pension plan (including service cost, net interest and remeasurement) is actuated based on the Projected Unit Credit Method. The service cost (including the service cost in the current period) and net interest on net defined benefit liabilities are stated employee benefit expenses when they are incurred. The remeasurement (including actuated income and return on planned assets less interest) is stated into other comprehensive income and included into the retained earnings when it is incurred, but shall not be reclassified into income subsequently.

The net defined benefit liabilities refer to the allocation shortfall of the defined benefit pension plan.

(13) Employee stock options

Employee stock options to employees

The employee stock options to employees shall be measured at the fair value decided on the grant date and the best estimated quantity of projected vested equity instruments on the straight-line basis, and the capital surplus-employee stock options shall be adjusted, within the vested period. If the expenses are vested immediately on the grant date, the expenses shall be recognized in whole on the grant date.

The consolidated companies shall modify the estimated quantity of projected vested employee stock options on each balance sheet date. If the initial estimated quantity is modified, the effect hereof shall be recognized to have the accumulated expenses reflect the modified estimates and also adjust the capital surplus-employee stock option relatively.

(14) Income tax

Income tax expenses mean the total of current income tax and deferred income tax.

1. Current income tax

The 10% additional income tax levied on unallocated earnings calculated according to the Income Tax Law is stated as the income tax expenses in the year of the resolution made by the shareholders' meeting.

The adjustment of payable income tax for previous years is stated as current income tax.

2. Deferred income tax

The deferred income tax is recognized based on the book value of assets and liabilities and temporary difference generated from the taxation basis for assets and liabilities. The deferred income tax liabilities are recognized based on the taxable temporary difference, while the deferred income tax assets are recognized when they are very likely to generate taxable income enough to deduct temporary differences and income tax credit generated from R&D expenditures.

The taxable temporary difference related to investee subsidiaries is stated as deferred income tax liabilities, unless the consolidated companies were able to control the timing of reversal of temporary difference, and the temporary difference is very unlikely to be reversed in the foreseeable future. The deferred income tax assets generated from deductible temporary difference related to such investment will be recognized only when they are very likely to generate taxable income enough to realize the gain on temporary difference and expected to be reversed in the foreseeable future.

The book value of deferred income tax assets shall be re-checked on each balance sheet date, and the book value of the assets which are very unlikely to generate enough taxable income to recall all or some of the assets shall be decreased. Those which were not recognized as deferred income tax assets initially shall be re-checked on each balance sheet date, and the book value of the assets which are very likely to generate taxable income enough to recall all or some of the assets shall be increased.

The deferred income tax assets and liabilities are measured at the tax rate prevailing when the assets are expected to be realized or liabilities are expected to be repaid, and based on the statutory tax rate or tax rate substantially enacted on the balance sheet date. The evaluation of deferred income tax liabilities and assets is intended to reflect the taxation consequence arising from the book value of assets and liabilities expected by an enterprise to be collected or repaid on the balance sheet date.

3. Current and deferred income tax

Current and deferred income tax is stated into income, provided that the current and deferred income tax related to other comprehensive income is stated into other comprehensive income separately.

5. Significant accounting judgments, estimations, and major sources of hypotheses of uncertainty

When adopting any accounting policies, the consolidated companies' management shall make the related judgment, estimation and hypotheses toward the related information that cannot be obtained from other source easily based on historical experience and other critical factors. The actual result may vary from the estimation.

The management will continue to review the estimation and basic hypotheses. If modification to estimation only renders effect during the current period, it shall be recognized in the current period. If the modification to accounting estimation renders effect during the current period and in the future, it shall be recognized during the current period and in the future.

Impairment on inventory

Net realizable value was the estimated selling price of inventories less all estimated costs of completion and necessary selling costs. The estimates were based on the current market status and historical experience in selling similar goods. The estimation result might vary depending on changes of the market condition.

6. Cash and cash equivalents

	December 31, 2016	December 31, 2015
Cash on hand and working capital	$ 309	$ 265
Demand deposits	32,459	26,875
Cash equivalents (Investment to expire within three months initially)		
Bank time deposits	72,692	107,894
Repo	50,000	106,100
	$155,460	$241,134

7. Financial instruments at fair value through profit or loss

	December 31, 2016	December 31, 2015
Financial liabilities - current		
Held for trading		
Derivative instruments (without designated hedge)		
— Forward Foreign Exchange Contracts(1)	$ 461	$ -

(1) The forward foreign exchange contracts which didn't apply the hedging accounting or hadn't yet been matured on the balance sheet date:

December 31, 2016

	Currency type	Maturity	Contract amount (NT$ thousand)
Forward foreign exchange - sell	RMB exchanged for NTD	From January 16, 2017 to February 16, 2017	RMB 7,947

The consolidated companies engaged in forward foreign exchange rate transactions primarily in order to hedge against the risk on foreign currency assets and liabilities arising from fluctuations in foreign exchange rates.

8. Financial assets in available-for-sale

	December 31, 2016	December 31, 2015
Non-current		
Domestic investment		
Unlisted/non-OTC stock	$ -	$ 1,046

9. Investments in Debt Instrument with No Active Market

	December 31, 2016	December 31, 2015
Current		
Bank time deposit to expire after more than three months initially	$ 99,492	$ 87,321
Repo to expire after more than three months initially	21,400	-
	$120,892	$ 87,321

Until December 31, 2016 and 2015, the interest rate ranges of the bank time deposits and Repo to expire after more than three months initially were 0.05%~1.55% and 0.05%~3.45%.

10. Receivable notes and receivable accounts

	December 31, 2016	December 31, 2015
Receivable notes		
Incurred for business	$ 3,512	$ 3,303
Receivable accounts		
Receivable accounts	$102,750	$ 81,199
Less: allowance for bad debt	(3,060)	(2,417)
	$ 99,690	$ 78,782

The loan period for sale of goods granted by the consolidated companies lasts 5～65 days. When deciding collectability of receivable accounts, the consolidated companies would consider any changes in credit quality of receivable accounts from the date of initial loan until the balance sheet date. According to the historical experience, there were no receivable accounts that were overdue for more than 360 days. Meanwhile, based on the conservative and stable policy, the consolidated companies provided 100% allowance for bad debt for receivable accounts overdue for more than 360 days, and provided the allowance for bad debt for receivable accounts overdue for no more than 360 days, according to the trading counterpart's record and analysis on its financial position.

The age of account for receivable accounts is analyzed as following:

	December 31, 2016	December 31, 2015
0～30 days	$102,750	$ 81,199

Said age of account analysis was conducted based on the post date.

The consolidated companies had no overdue receivable accounts, but unimpaired or individually impaired receivable accounts on the balance sheet date.

The information about changes in allowance for bad debt for receivable accounts:

	2016	2015
Balance, beginning	$ 2,417	$ 2,075
Add: Expenses for bad debt provided this year	643	342
Balance, ending	$ 3,060	$ 2,417

11. Inventory

	December 31, 2016	December 31, 2015
Finished goods	$ 40,332	$ 34,236
Work in process	24,014	14,458
Raw materials	5,651	4,608
Goods	636	461
	$70,633	$53,763

The cost of sold goods related to inventory in 2016 and 2015 were NT$388,619 thousand and NT$356,924 thousand.

The cost of sold goods related to inventory in 2016 included the price recovery from net realizable value of inventory, NT$6,007 thousand, and the loss from scrapping of inventory, NT$4,315 thousand. The cost of sold goods related to inventory in 2015 included the loss from price decline of inventory, NT$6,203 thousand. The price recovery from net realizable value of inventory primarily resulted from the increase in the selling price of the inventory in specific markets.

12. Subsidiary

Subsidiaries included into consolidated financial statements

The subjects included into the consolidated financial statements are stated as following:

			Ownership of equity (%)	
Investor	Subsidiary	Nature of business	2016 December 31	2015 December 31
the Company	Regent Pacific Management Ltd.	General investment	100.00%	100.00%
Regent Pacific Management Ltd.	MEGAWIN TECHNOLOGY H.K. COMPANY LIMITED	IC design service, trading and general investment	100.00%	100.00%
MEGAWIN TECHNOLOGY H.K. COMPANY LIMITED	MEGAWIN TECHNOLOGY SHENZHEN COMPANY LIMITED	IC design service, trading and general investment	100.00%	100.00%

13. Property, plant and equipment

	Own land	Building	R&D equipment	Furniture & fixture	Other equipment	Leasehold improvement	Total
Cost							
Balance, January 1, 2015	$ 45,279	$136,298	$ 2,736	$ 9,238	$ 7,721	$ -	$201,272
Addition	-	-	-	1,874	1,529	700	4,103
Disposition	-	-	(29)	(2)	(128)	-	(159)
Net exchange differences	-	-	(5)	(12)	(15)	-	(32)
Balance, December 31, 2015	$ 45,279	$136,298	$ 2,702	$ 11,098	$ 9,107	$ 700	$205,184

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(Brought forward)

	Own land	Building	R&D equipment	Furniture & fixture	Other equipment	Leasehold improvement	Total
Accumulated depreciations							
Balance, January 1, 2015	$ -	$ 2,931	$ 2,008	$ 3,892	$ 6,816	$ -	$ 15,647
Depreciation expenses	-	3,760	264	1,760	1,118	290	7,192
Disposition	-	-	(29)	(2)	(88)	-	(119)
Net exchange differences	-	-	(1)	(9)	(12)	-	(22)
Balance, December 31, 2015	$ -	$ 6,691	$ 2,242	$ 5,641	$ 7,834	$ 290	$ 22,698
Net, December 31, 2015	$ 45,279	$129,607	$ 460	$ 5,457	$ 1,273	$ 410	$182,486
Cost							
Balance, January 1, 2016	$ 45,279	$136,298	$ 2,702	$ 11,098	$ 9,107	$ 700	$205,184
Addition	-	-	599	1,492	400	-	2,491
Disposition	-	-	-	(62)	-	-	(62)
Net exchange differences	-	-	(18)	(54)	(102)	-	(174)
Balance, December 31, 2016	$ 45,279	$136,298	$ 3,283	$ 12,474	$ 9,405	$ 700	$207,439
Accumulated depreciations							
Balance, January 1, 2016	$ -	$ 6,691	$ 2,242	$ 5,641	$ 7,834	$ 290	$ 22,698
Depreciation expenses	-	3,760	318	2,249	991	350	7,668
Disposition	-	-	-	(62)	-	-	(62)
Net exchange differences	-	-	(12)	(38)	(66)	-	(116)
Balance, December 31, 2016	$ -	$ 10,451	$ 2,548	$ 7,790	$ 8,759	$ 640	$ 30,188
Net, December 31, 2016	$ 45,279	$125,847	$ 735	$ 4,684	$ 646	$ 60	$177,251

The depreciation expenses were provided under straight-line basis over the useful years:

Building	8~50 years
R&D equipment	3~6 years
Furniture & fixture	1~5 years
Other equipment	1~4 years
Leasehold improvement	2 years

For the property, plant and equipment pledged to secure the loan, please see Note 28.

14. Intangible assets

	Computer software	Technology license	Total
Cost			
Balance, January 1, 2015	$ 23,036	$ 27,123	$ 50,159
Addition	1,487	-	1,487
Net exchange differences	(5)	-	(5)
Balance, December 31, 2015	$ 24,518	$ 27,123	$ 51,641
Accumulated amortization and impairment			
Balance, January 1, 2015	($ 21,868)	($ 1,658)	($ 23,526)
Amortization expenses	(749)	(1,808)	(2,557)
Net exchange differences	2	-	2
Balance, December 31, 2015	($ 22,615)	($ 3,466)	($ 26,081)
Net, December 31, 2015	$ 1,903	$ 23,657	$ 25,560

(Continued)

(Brought forward)

	Computer software	Technology license	Total
Cost			
Balance, January 1, 2016	$ 24,518	$ 27,123	$ 51,641
Addition	865	1,722	2,587
Net exchange differences	(19)	-	(19)
Balance, December 31, 2016	$ 25,364	$ 28,845	$ 54,209
Accumulated amortization and impairment			
Balance, January 1, 2016	($ 22,615)	($ 3,466)	($ 26,081)
Amortization expenses	(1,009)	(2,287)	(3,296)
Net exchange differences	12	-	12
Balance, December 31, 2016	($ 23,612)	($ 5,753)	($ 29,365)
Net, December 31, 2016	$ 1,752	$ 23,092	$ 24,844

The amortization expenses were provided under straight-line basis over the useful years:

Computer software	1~10 years
Technology license	3~15 years

15. Other current assets

	December 31, 2016	December 31, 2015
Prepayment	$ 3,696	$ 2,258
Receivable and refundable tax	2,694	1,700
Other receivables	458	997
Others	155	184
	$ 7,003	$ 5,139

16. Loans

(1) Short-term loans

	December 31, 2016	December 31, 2015
Secured loan		
Bank loan	$ -	$ 30,000

The interest rate of secured bank loans was 1.60% on December 31, 2015. (For details about collateral, please see Note 28.)

17. Payable accounts

	December 31, 2016	December 31, 2015
Payable accounts		
Incurred for business	$ 65,097	$ 56,494

The credit period applicable to the consolidated companies' purchase of goods was OA 30~60 days. The consolidated companies had defined the financial risk management policy to ensure that all payable accounts are repaid within the credit period agreed previously.

18. Other liabilities

	December 31, 2016	December 31, 2015
Current		
Other payables		
Payable salary and bonus	$ 20,122	$ 18,730
Payable employee bonus	4,542	9,460
Payable remuneration to directors/supervisors	1,514	3,153
Payable labor service fees	3,425	3,310
Payable loss on scrapping and slow-moving of wafer	1,905	2,226
Payable optical mask fees	131	545
Other payable expenses	15,364	13,489
	$ 47,003	$ 50,913
Other current liabilities		
Advance receipts	$ 1,411	$ 2,054
Temporary receipts	727	-
Receipts under custody	305	294
	$ 2,443	$ 2,348

19. Termination benefit plan

(1) Defined contribution plan

Among the consolidated companies, the Company applies the pension system under the “Labor Pension Act”, which refers to the defined contribution plan managed by the Government. The pension fund equivalent to 6% of each employee’s monthly salary is contributed to the exclusive personal account maintained at Bureau of Labor Insurance on a monthly basis.

(2) Defined benefit plan

Among the consolidated companies, the Company applies the pension system under the "Labor Standard Law" refers to the defined benefit pension plan managed by the Government. The employee pension was paid according to the employee's seniority and average salary of the six months prior to his/her retirement as approved. The Company contributes 2% of the total salaries of the employees and have the same deposited into the special pension fund account maintained at Bank of Taiwan via the Employee Pension Fund Reserve Supervisory Committee in the name of the Committee, on a monthly basis. If the balance in said account is estimated to be insufficient for the payment of pension to workers who meet the retirement conditions in next year, the price difference shall be allocated in full by the end of March of the next year. The special pension fund account is managed by Bureau of Labor Funds, Ministry of Labor on a commission basis. The Company has no right to affect the investment management strategies.

The defined benefit plan amounts included into the consolidated balance sheet are listed as following:

	December 31, 2016	December 31, 2015
Present value of defined benefit obligation	$ 15,627	$ 13,966
Fair value of assets under the plan	(10,736)	(10,237)
Net defined benefit liabilities	$ 4,891	$ 3,729

Changes in net defined benefit liabilities:

	Present value of defined benefit obligations	Fair value of assets under the plan	Net defined benefit liabilities
Balance, January 1, 2015	$ 12,121	($ 9,328)	$ 2,793
Interests expenses (revenue)	227	(179)	48
Stated into income	227	(179)	48
Remeasurement			
Return on assets under the plan (exclusive of the amount included into net interest)	-	(69)	(69)

Actuarial losses — changes in hypothesis about demographics	399	-	399
Actuarial losses — changes in hypothesis about finance	562	-	562
Actuarial losses - experience adjustment	657	-	657
Stated into other comprehensive income	1,618	(69)	1,549
Contributed by employer	-	(661)	(661)
Balance, December 31, 2015	13,966	(10,237)	3,729
Interests expenses (revenue)	209	(157)	52
Stated into income	209	(157)	52
Remeasurement			
Return on assets under the Plan (exclusive of the amount included into net interest)	-	83	83
Actuarial losses — changes in hypothesis about demographics	699	-	699

(Continued)

(Brought forward)

	Present value of defined benefit obligation	Fair value of assets under the Plan	Net defined benefit liabilities Benefit liabilities
Actuarial losses — changes in hypothesis about finance	$ 401	$ -	$ 401
Actuarial losses - experience adjustment	352	-	352
Stated into other comprehensive income	1,452	83	1,535
Contributed by employer	-	(425)	(425)
Balance, December 31, 2016	$ 15,627	($ 10,736)	$ 4,891

The Company is exposed to the following risk due to the pension system under the "Labor Standard Law":

1. Investment risk: The Bureau of Labor Funds, Ministry of Labor invests the labor pension fund, via proprietary trading and discretionary investment service, in domestic (foreign) equity securities and bond securities and bank deposits, provided that the amount allocated from the Company's assets under the Plan shall be no less than the income calculated at the interest rate applicable to the local bank's two-year time deposits.
2. Interest rate risk: The declination of interest rate on government bonds will result in an increase in the present value of defined benefit obligations, but also an increase in the return on the obligation investment of assets under the Plan relatively. They both will offset against the effect of net defined benefit liabilities in part.
3. Salary risk: The present value of defined benefit obligation is calculated based on the future salary of the members under the Plan. Therefore, the increase in salary of the members under the Plan will result in increase in the present value of defined benefit obligation.

The present value of defined benefit obligation is actuated by a qualified actuary. The important hypotheses applied on the date of measurement are stated as follows:

	December 31, 2016	December 31, 2015
Discount rate	1.25%	1.50%
Expected rate of increase in salary	3.00%	3.00%

If the important actuation hypotheses are changed reasonably, while the other hypotheses remain unchanged, the increase (decrease) in the present value of defined benefit obligation is stated as follows:

	December 31, 2016	December 31, 2015
Discount rate		
Increase by 0.25%	(\$ 421)	(\$ 385)
Decrease by 0.25%	\$ 437	\$ 401
Expected rate of increase in salary		
Increase by 0.25%	\$ 423	\$ 389
Decrease by 0.25%	(\$ 409)	(\$ 376)

Given that the hypotheses might be related to each other, it is not likely that one single hypothesis would vary independently, said analysis of sensitivity might be unable to reflect the actual changes in the present value of defined benefit obligation.

	December 31, 2016	December 31, 2015
Amount expected to be contributed within one year	\$ 448	\$ 408
Average maturity of defined benefit obligation	11 years	11.3 years

20. Equity

(1) Capital stock

1. Common stock

	December 31, 2016	December 31, 2015
Authorized quantity (thousand shares)	60,000	60,000

Authorized capital stock	$ 600,000	$ 600,000
Quantity of issued and paid-up shares (thousand shares)	39,300	39,300
Issued capital stock	$ 392,999	$ 392,999

The par value of issued common stock is NT$10 per share. Each share is entitled to one voting right and right to collect a stock dividend.

The capital stock retained for issuance of employee stock options in the authorized capital stock totaled 5,000 thousand shares.

The directors' meeting of the Company resolved on December 23, 2014 that the 5,000 thousand new shares issued before the Company's initial listing on OTC market at par value of NT$10 per share should be issued in excess of par value, namely, NT$15, per share. The paid-in capital after the capital increase was NT$395,309 thousand. Said motion for capital increase has been effective upon receipt of the approval letter under Cheng-Kuei-Shen-Tzu No. 1030035099 dated Dec. 31, 2014 from TPEx, and the directors' meeting resolved that the record date thereof should be January 22, 2015 and the registration of changes was completed on January 30, 2015.

On November 3, 2015, the directors' meeting resolved to cancel the treasury stock totaling 231 thousand shares and to set November 16, 2015 as the record date of capital decrease. The paid-in capital stock upon the capital decrease was NT$392,999 thousand, and the registration of changes was completed on November 30, 2015.

The information about employee stock options given by the Company due to transfers of treasury stocks and capital increases in cash in 2016 and 2015 is stated as follows:

	2016		2015	
Employee stock options	Unit (Thousand)	Weighted average exercise price (NT$)	Unit (Thousand)	Weighted average exercise price (NT$)
Outstanding, beginning	-	$ -	-	$ -
Given this year	964	12.8	750	15
Waived this year	-	-	(60)	15
Executed this year	(964)	12.8	(690)	15
Outstanding, ending	-		-	

Executable at the end of the year	-	-
Weighted average fair value of stock options granted in the current period (NT$)	$ 6.46	$ 0.29

The remuneration costs recognized based on the employee stock options given by the Company due to transfers of treasury stocks and capital increases in cash in 2016 and 2015 were NT$6,227 thousand and NT$217 thousand, respectively. The treasury stock was transferred to employees in April 2016.

(2) Capital surplus

	December 31, 2016	December 31, 2015
To cover loss, distribute cash dividend or allocate capital stock(1)		
Stock issued in excess of par value	$ 37,304	$ 37,304
Treasury stock	7,675	1,312
Price difference between the proceeds from acquisition of subsidiaries' equity and book value of the equity	1	1
Not used for any other purposes		
Employee stock options	1,722	1,722
	$ 46,702	$ 40,339

1. Such capital surplus may be used to cover losses or allocate cash dividends or be transferred to capital stock when the Company suffers no loss, provided that such capital surplus transferred to capital stock shall be within a certain ratio of the paid-in capital stock per year.

(3) Retained earnings and dividend policy

According to the amendments to Company Law in May 2015, the stock dividend and bonus shall be allocated to shareholders, while employees are excluded from the subjects to whom earnings should be allocated. The Company has resolved to pass the earnings allocation policy under the amended Articles of Incorporation at the general shareholders' meeting on

June 7, 2016, and also defined the policy for allocation of remuneration to employees and directors/supervisors in the Articles of Incorporation.

According to the earnings allocation policy under the amended Articles of Incorporation, if the Company has a profit at the year's final accounting, it shall be allocated in the following order:

1. To pay tax;
2. To offset against loss;
3. To allocate 10% as the legal reserve, unless the accumulated legal reserve amounts to the Company's paid-in capital;
4. To set aside or reverse the special reserve pursuant to the Securities and Exchange Act;
5. The balance refers to the shareholders' bonus, which will be allocated on a pro rata basis subject to the total shareholdings or retained upon resolution of the shareholders' meeting.

For the policies for allocation of remuneration to employees and directors/supervisors defined in the Articles of Incorporation before and after the amendments, please see Note 22(5), Total Employee Benefit Expenses.

According to the Company's Articles of Incorporation, under the environment in which the competition becomes intensive increasingly, the Company adopts the dividend equalization policy in order to pursue sustainable operation, by taking the long-term financial planning and funding need into consideration. Notwithstanding, the shareholders' meeting may adjust the policy subject to the earnings gained in the year. The payment ratio of cash dividend shall be no less than 10% of the total stock dividend allocated from earnings for then year.

The Company shall contribute the legal reserve until it is equivalent to the paid-in capital. The legal reserve may be used to cover loss. When the Company suffers no loss, cash may be allocated from the legal reserve, provided that the new shares or cash allocated shall be no more than 25% of the paid-in capital.

The Company provided and reversed the special reserve pursuant to the FSC's official letter under Ching-Kuan-Cheng-Fa-Tzu No. 1010012865, FSC's official letter under Ching-Kuan-Cheng-Fa-Tzu No. 1010047490 and "Q&A for Provision of Special Reserve upon Adoption of IFRSs".

When unallocated earnings are allocated, any shareholders other than those residing within the territories of the R.O.C. may receive the shareholders' deductible tax at the tax credit rate prevailing on the date of allocation of stock dividend.

The Company held the general shareholders' meeting on June 7, 2016 and June 9, 2015, resolving to pass the motion for allocation of earnings 2015 and 2014:

	Motion for allocation of earnings		EPS (NT$)	
	2015	2014	2015	2014
Legal reserve	$ 3,981	$ 5,736	$ -	$ -
Cash dividend	30,669	38,336	0.80	1.00

The motion for allocation of earnings for 2016 resolved by the directors' meeting on February 14, 2017:

	Motion for allocation of earnings	EPS (NT$)
Legal reserve	$ 2,598	$ -
Cash dividend	19650	0.50

The motion for allocation of earnings for 2016 is still pending resolution by the general shareholders' meeting to be called on May 23, 2017.

(4) Treasury stock

Cause of collection	Transfer shares to employees (Thousand shares)
Quantity of shares, January 1, 2015	1,195
Decrease this year	(231)
Quantity of shares, December 31, 2015	964
Quantity of shares, January 1, 2016	964
Decrease this year	(964)
Quantity of shares, December 31, 2016	-

According to the Securities and Exchange Act, the treasury stock held by the Company shall not be pledged, or entitled to the right to allocate stock dividends and vote.

21. Revenue

	2016	2015
Revenue from sale of goods	$602,098	$571,986

22. Net profit of continued operations

Net profit of continued operations consists of the following elements:

(1) Other revenue

	2016	2015
Interest revenue	$ 2,369	$ 3,132
Others	2,265	6,554
	$ 4,634	$ 9,686

(2) Other gains and losses

	2016	2015
Net foreign currency exchange income	($ 5,410)	$ 1,908
Loss from financial liabilities held for trading	(239)	-
Gain from disposition of investment	1,000	-
Loss from impairment on financial assets	(1,046)	(235)
Others	319	(1,479)
	($ 5,376)	$ 194

(3) Financial cost

	2016	2015
Interest on bank loan	$ 6	$ 212

(4) Depreciation and amortization

	2016	2015
Property, plant and equipment	$ 7,668	$ 7,192
Intangible assets	3,296	2,557
Total	$ 10,964	$ 9,749

Depreciation expenses summarized by function

Operating cost	$ 629	$ 724
Operating expenses	7,039	6,468
	$ 7,668	$ 7,192
Amortization expenses summarized by function		
Administrative expenses	$ 923	$ 586
R&D expenditures	2,373	1,971
	$ 3,296	$ 2,557

(5) Employee benefit expenses

	2016	2015
Short-term employee benefits	$106,422	$106,856
Termination benefit (Note 19)		
Defined contribution plan	4,226	3,868
Defined benefit plan	-	48
	4,226	3,916
Share-based payment (Note 20)		
Settlement of equity	6,227	217
Total employee benefit expenses	$116,875	$110,989

(Continued)
(Brought forward)

	2016	2015
Summarized by function		
Operating cost	$ -	$ -
Operating expenses	116,875	110,989
	$ 116,875	$ 110,989

1. Remuneration to employees and directors/supervisors in 2016 and 2015

According to the Company Law amended in May 2015 and the amended Articles of Incorporation amended upon resolution by the shareholders’ meeting in June 2016, the Company allocated 12%~15% and 3%~5% of the income before tax before deduction of remuneration to employees and directors/supervisors as the remuneration to employees and directors/supervisors. The remuneration to employees and directors/supervisors in 2016 and 2015 was allocated subject to the following resolution made by the directors' meetings on February 15, 2017 and March 15, 2016:

Estimated percentage

	2016	2015
Remuneration to employees	12.5%	12.5%
Remuneration to directors/supervisors	4.2%	4.2%

Amount

	2016		2015	
	Cash	Stock dividend	Cash	Stock dividend
Remuneration to employees	$ 4,542	$ -	$ 7,568	$ -
Remuneration to directors/supervisors	1,514	-	2,523	-

In the case of variation in the amount on the date of approval and release of the consolidated financial statements, the variation shall be treated as the change in accounting estimation and stated in next year.

The remuneration to employees and directors/supervisors allocated upon resolution of the directors' meeting on March 15, 2016, and that is recognized in the consolidated financial statements is stated as follows:

	2015	
	Remuneration to employees	Remuneration to directors/supervisors
Amount to be allocated upon resolution by the directors' meeting	$ 7,568	$ 2,523
Amounts recognized in the annual financial statements	$ 9,460	$ 3,153

Said variance was adjusted as income 2016.

For the information about remuneration to employees and directors/supervisors resolved by the Company's directors' meeting in 2017 and 2016, please visit the "MOPS" website of the TWSE.

2. Employee bonus and remuneration to directors/supervisors in 2014

The Company held the general shareholders' meeting on June 9, 2015, resolving to pass the motion for allocation of employee bonuses and remuneration to directors/supervisors in 2014:

	2014	
	Cash dividend	Stock dividend
Employee bonus	$ 7,774	$ -
Remuneration to directors/supervisors	2,581	-

The employee bonus and the remuneration to directors/supervisors allocated upon resolution of the general shareholders' meeting on June 9, 2015, and that recognized in the consolidated financial statements are stated as follows:

	2014	
	Employee bonus	Remuneration to directors/supervisors
Amount to be allocated upon resolution by the shareholders' meeting	$ 7,774	$ 2,581
Amounts recognized in the annual financial statements	$ 7,910	$ 2,637

Said variance was adjusted as income 2015.

For the information about employee bonus and remuneration to directors/supervisors resolved by the Company's shareholders' meeting 2015, please visit the "MOPS" website of the TWSE.

23. Income tax of continued operations

(1) The income tax expenses stated into income consist of the following elements:

	2016	2015
Current income tax		
Generated this year	$ 4,537	$ 10,211
Levied on undistributed earnings	516	1,329
Adjustment in previous years	(543)	(683)
	4,510	10,857

Deferred income tax		
Generated this year	-	-
Income tax expenses stated into income	$ 4,510	$ 10,857

The accounting income and income tax expenses are adjusted as following:

	2016	2015
Net profit before tax of continued operations	$ 30,489	$ 50,666
Income tax for which the net profit before tax is calculated at the statutory tax rate	$ 5,183	$ 8,614
Levied on undistributed earnings	516	1,329
Unrecognized deductible temporary difference	(820)	1,423
Effect of application of different tax rates by entities included into the consolidated financial statements	174	174
Current adjustment of current income tax expenses of previous years	(543)	(683)
Income tax expenses stated into income	$ 4,510	$ 10,857

The consolidated companies shall apply the tax rate, 17%, which the entity may apply under the R.O.C. Income Tax Law. The subsidiary in territories of Mainland China shall apply the tax rate, 25%. The tax derived in any other jurisdiction shall be calculated at the tax rate prevailing in the relevant jurisdiction.

Because the motion for allocation of earnings has not yet been resolved by the shareholders' meeting 2017, it is impossible to determine the potential income tax effect on 10% levied on undistributed earnings for 2016.

(2) Current income tax liabilities

	December 31, 2016	December 31, 2015
Current income tax liabilities		
Payable income tax	$ 3,715	$ 10,723

(3) Items not recognized as deferred income tax assets

	December 31, 2016	December 31, 2015
Deductible temporary difference	$ 6,901	$ 7,816

(4) Information about the two-in-one tax policy:

	December 31, 2016	December 31, 2015
Undistributed earnings After 1998	$ 54,813	$ 65,019
Balance of shareholders' deductible tax account	$ 9,372	$ 3,157

	2016 (Projected)	2015
Tax credit ratio applicable to allocation of earnings	16.63%	16.02%

According to the Income Tax Law, when the Company allocates the earnings after 1998 (inclusive of 1998), the native shareholders may calculate the shareholders' deductible tax based on the tax credit ratio prevailing on the date of allocation of stock dividend. Because the deductible tax allocable to shareholders shall be based on the balance of shareholders' deductible tax accounts on the date of allocation of stock dividend, the Company estimates that the tax credit ratio for allocation of earnings for 2016 might be different from the tax credit ratio applicable to the actual allocation of earnings to shareholders.

The Company had no undistributed earnings before 1997 (inclusive).

(5) Authorization of income tax

The income tax returns of the Company until 2014 have been authorized by the tax collection authority.

24. EPS

The earnings and number of the weighted average shares of outstanding common stock used to calculate the EPS are stated as following:

Net profit in the current period

	2016	2015
Equity attributable to owners of the parent	$ 25,979	$ 39,809
Net profit used to calculate basic EPS	25,979	39,809
Net profit used to calculate diluted EPS	$ 25,979	$ 39,809

Quantity of shares

Unit: Thousand shares

	2016	2015
Quantity of the weighted average shares of common stock used to calculate the EPS	39,059	38,336
Effect of dilutive potential common stock:		
Employee bonus or remuneration to employees	436	750
Quantity of the weighted average shares of common stock used to calculate the EPS	39,495	39,086

If the consolidated companies may choose to grant remuneration to employees in the form of stock or in cash, when calculating the diluted EPS, it shall hypothesize that remuneration to employees will be granted in the form of stock, and include the weighted average quantity of outstanding shares when the potential common stock is dilutive, so as to calculate the EPS. When calculating diluted EPS before resolving the quantity of shares granted as remuneration to employees in next year, the Company should also continue to consider the dilutive effect of the potential common stock.

25. Capital risk management

The consolidated companies proceeded with capital management to ensure that the member enterprises within the consolidated companies could maximize shareholders’ return by optimizing the balance of debt and equity, on the premises that their operation may be continued.

The consolidated companies' capital structure consists of its net obligation (i.e. the loan less cash and cash equivalents) and equity attributable to the owners of parent (namely, capital stock, capital surplus, retained earnings and other equities).

The consolidated companies' management will check the consolidated companies' capital structure from time to time, by taking into consideration various capital costs and related risks. The consolidated companies balanced its entire capital structure by payment of stock dividend, issuance of new shares, repurchase of shares, issuance of new obligation or repayment of old obligation according to the management's suggestion.

The consolidated companies did not need to comply with the other external capital requirements.

26. Financial instruments

(1) Information about fair value - Financial instruments not measured at fair value

There was no material difference between the book value of financial assets and liabilities not measured at fair value, and the fair value thereof.

(2) Information about fair value - Financial instruments measured at fair value on a repeated basis

1. Tiers of fair value

December 31, 2016

	Tier 1	Tier 2	Tier 3	Total
Financial liabilities at fair value through profit or loss				
Derivative instruments	$ -	$ 461	$ -	$ 461

December 31, 2015

	Tier 1	Tier 2	Tier 3	Total
Financial assets in available-for-sale				
Domestic unlisted (non-OTC) securities	$ -	$ -	$ 1,046	$ 1,046

In 2016 and 2015, no transfer between Tier 1 and Tier 2 of fair value took place.

2. Adjustment of financial assets measured at fair value of Tier 3

Financial assets	Investment in equity instruments in available-for-sale — Investment in equity instruments 2016	2015
Balance, beginning	$ 1,046	$ 1,281
Stated into income		
－Realized	(1,046)	-
－Unrealized	-	(235)
Balance, ending	$ -	$ 1,046

3. Valuation technology and input value for measurement at fair value of Tier 2

Types of financial instruments	Valuation technology and input value
Derivative instrument－Forward Foreign Exchange Contracts	Discounted cash flow method: To estimate the future cash flow based on the observable forward foreign exchange rate at the end of year and foreign exchange rate defined in the contract, and to discount the same based on the discount rate which may reflect various trading counterparts' credit risk.

4. Valuation technology and input value for measurement at fair value of Tier 3

Domestic/overseas unlisted (non-OTC) equity investment applies the market-based approaches. Namely, the value of evaluated object is estimated by appropriate multiples based on the trading price of comparable object and by taking into consideration of the difference between the evaluated object and comparable object. The common valuation under the market-based approach is based on the price of stock with active market of the stock of the enterprise engaged in the same or similar business lines to decide the relevant multiples and evaluate.

(3) Types of financial instruments

	December 31, 2016	December 31, 2015
Financial assets		
Loans and receivable	$380,045	$411,061

accounts (Note 1)		
Financial assets in available-for-sale	-	1,046
Financial liabilities		
Measured at amortized cost (Note 2)	116,484	141,882

Note 1: The balance includes the loans and accounts receivable measured at cost after amortization including cash and cash equivalents, bond instruments without an active market, receivable notes, receivable accounts and refundable deposits.

Note 2: The balance includes the financial liabilities measured at cost after amortization including short-term borrowing, payable accounts, other payable accounts, and guaranteed deposits received.

(4) Purpose and policy of financial risk management

The consolidated companies' main financial instruments include equity investment, receivable accounts, payable accounts and loans. The consolidated companies' financial management department is dedicated to providing various business units with services, coordinating the operation in domestic and international financial markets, and analyzing risk per the degree and extension of risk and managing the financial risk over the Company's operation. The risks include market risk (including foreign exchange risk, interest rate risk and other pricing risks), credit risk and liquidity risk.

The consolidated companies hedged exposure via the financial derivatives to mitigate the effect produced by the risk. The utilization of financial derivatives is governed by the policy approved by the Company's Board. The policy refers to the written principles for the utilization of foreign exchange risk, interest rate risk, credit risk, financial derivatives and non-financial derivatives and investment of residual working capital. Internal auditors shall re-audit compliance with the policy and exposure limit. The consolidated companies never engaged in transactions of financial instruments (including financial derivatives) for the purpose of speculation.

1. Market risk

The main market risk borne by the consolidated companies' operating activities means the risk over changes in foreign exchange rate of foreign currency (see the following (1)) and risk over changes in interest rate (see the following (2)). The foreign currency exchange rate risk borne by the consolidated companies to manage forward contract.

The consolidated companies' exposure related to financial instrument market risk and the management and evaluation of such exposure remain unchanged.

(1) Foreign exchange rate risk

The consolidated companies engaged in sale and purchase denominated in foreign currency and thereby exposed it to the risk over changes of foreign exchange rate. About 91% of the consolidated companies' turnover was denominated in a currency other than the functional currency, and about 76% of the cost was denominated in a currency other than functional currency. The consolidated companies' exposure to the risk over foreign exchange rate was managed in the form of forward contract, insofar as it was permitted by the relevant policy. Meanwhile, the consolidated companies also had some bank deposits denominated in foreign currency to collect interest revenue. Until December 31, 2016, about 29% of the cash and cash equivalents were denominated in a currency other than the functional currency.

For the book value of the consolidated companies' monetary assets and monetary liabilities denominated in a currency other than the functional currency on the balance sheet date, please refer to Note 29.

Sensitivity analysis

The consolidated companies were primarily affected by the fluctuation in USD and RMB.

The following table states the consolidated companies' sensitivity analysis in the case of increase/decrease in foreign exchange rate of NTD (functional currency) vs. USD/RMB by 1%. 1% means the sensitivity ratio which is applied when reporting the foreign interest rate risk to the management within the consolidated companies, also representing the management's evaluation about reasonable potential changes in the foreign exchange rate of foreign currency. The sensitivity analysis only included the outstanding monetary items denominated in the foreign currency, and adjusted the conversion at the end of year by changes in the foreign exchange rate by 1%. The following table states that the revaluation of NTD against USD/RMB by 1% will result in decrease or increase in net income before tax. Notwithstanding, in consideration of the devaluation of NTD against USD/RMB by 1%, the effect on net income before tax will be the equivalent amount positively.

	Effect of USD		Effect of RMB	
	2016	2015	2016	2015
Income	($ 686)	($ 1,363)	($ 571)	($ 519)
Equity	(686)	(1,363)	(571)	(519)

(2) Interest rate risk

The entities in the consolidated companies borrowed funds at a floating interest rate at the same time and, therefore, exposed the companies to interest rate risk. The consolidated companies evaluated the hedging activities periodically to keep them consistent with the view about interest rate and existing risk preference and to ensure the adoption of hedging strategies that met the cost benefit best.

The book value of the consolidated companies' monetary assets and monetary liabilities exposed to the interest rate risk on the balance sheet date is stated as following:

	December 31, 2016	December 31, 2015
Fair value interest rate risk		
- Financial assets	$243,584	$301,315
Cash flow interest rate risk		
- Financial assets	32,459	26,875
-Financial liabilities	-	30,000

Sensitivity analysis

The following sensitivity analysis is decided based on the exposure of interest rate risk of the non-derivative instruments on the balance sheet date. The analysis hypothesized that the floating interest rate liabilities outstanding on the balance sheet date were outstanding throughout the reporting period. The variance rate applied by the consolidated companies' internal staff when reporting the interest rate to the management was based on the interest rate increased or decreased by 100, which also represents the management's evaluation on the reasonable variance of the interest rate.

If the interest rate increases or decreases by 100 and the other variables remain unchanged, the consolidated companies' net profits in 2016 and 2015 would decrease/increase by NT$0 thousand and NT$300 thousand, primarily resulting from the Company's loan at the floating interest rate. The Company's loans at the floating interest rate were repaid in 2016.

2. Credit risk

The credit risk refers to the consolidated companies' financial loss risk derived from the failure of any trading counterpart to perform its contractual obligation. Until the balance sheet date, the maximum credit risk which the consolidated companies might be exposed to because of the trading counterpart's failure to perform the contractual obligation has primarily resulted from the book value of financial assets stated in the consolidated balance sheet.

In order to mitigate the credit risk, the consolidated companies' management designated the dedicated team to decide the facility to be granted, approve facility and handle other controlling procedures, in order to ensure that appropriate measures have been taken to collect overdue receivables. Meanwhile, the consolidated companies would check the collectible amount of receivable accounts one by one on the balance sheet date to ensure that appropriate impairment loss has been provided for the receivable accounts which could not be collected. Given this, the consolidated companies' management considered that its credit risk shall have been mitigated significantly.

Meanwhile, the trading counterpart of working capital and financial derivatives was the bank that was granted high credit rating by the international credit rating organization. Therefore, the credit risk shall be considered minor.

The consolidated companies' credit risk by territory was primarily centralized in Hong Kong and Mainland China, which has accounted for 44% and 30%, and 46% and 50% of the total receivable accounts until December 31, 2016 and 2015.

The consolidated companies' risk credit was primarily centralized in its top 5 customers. The receivable accounts from said customers accounted for 86% and 74% of the total receivable accounts until December 31, 2016 and 2015.

3. Liquidity risk

The consolidated companies managed and maintained sufficient cash and cash equivalents to cover the consolidated companies' operation and mitigate the effect produced by fluctuations in cash flows. The consolidated companies' management supervised the status of bank facility to ensure compliance with the terms and conditions in the loan contract.

For the consolidated companies, the bank loan was a very important source of liquidity. For facilities that have not yet been drawn down by the consolidated companies before December 31, 2016 and 2015, please see the following Note (2), facility.

(1) Statement of liquidity and interest rate risk of non-derivative financial liabilities

The analysis on residual duration of contract for non-derivative financial liabilities was prepared in accordance with the earliest date of repayment which was requested from the consolidated companies and non-discounted cash flows for financial liabilities (including the principal and estimated interest). Therefore, the bank loans that the consolidated companies could be requested to repay immediately are listed in the earliest period identified in the following table, without needing to take the opportunity of the bank's immediate exercise of the right into consideration. The analysis on expiry of other non-derivative financial liabilities was prepared based on the agreed date of repayment.

December 31, 2016

	Payable on demand or less than one month	1～3months	3Months～1months～1 year	1～5 years	5 years or more
Non-derivative financial liabilities					
Liabilities without interest	$ 36,752	$ 33,533	$ -	$ 2,019	$ -

December 31, 2015

	Payable on demand or less than one month	1～3months	3Months～1 year	1～5 years	5 years or more
Non-derivative financial liabilities					
Liabilities without interest	$ 39,860	$ 22,734	$ -	$ 2,056	$ -
Instruments at floating interest rate	30,000	-	-	-	-
	$ 69,860	$ 22,734	$ -	$ 2,056	$ -

(2) Facility

	December 31, 2016	December 31, 2015
Non-secured bank loan facility		
- Amount drew down	$ -	$ -
- Amount not yet drawn down	74,675	32,825
	$ 74,675	$ 32,825
Secured bank loan facility		
- Amount drew down	$ -	$ 30,000
- Amount not yet drawn down	112,875	149,065
	$ 112,875	$ 179,065

27. Transactions with related parties

The transactions, balance of account, income and expenses between the Company and its subsidiaries (the Company's related parties) were written off at the time of consolidation and, therefore, are not disclosed herein. In addition to the transactions disclosed in the other notes, the transactions between the consolidated companies and related parties are stated as follows:

Remuneration to the management

	2016	2015
Short-term employee benefits	$ 16,013	$ 12,655
Termination benefit	509	524
	$ 16,522	$ 13,179

The remuneration to directors and the other management was decided by the Remuneration Committee subject to personal performance and market trend.

28. Pledged assets

The following assets were furnished as the collateral to secure the facility:

	December 31, 2016	December 31, 2015
Own land and buildings, net	$164,076	$174,886

29. Information about foreign-currency-denominated assets and liabilities that have significant influence

The following is expressed by summarization of the foreign currencies other than functional currencies applied by entities in the consolidated companies. The foreign exchange rate as disclosed refers to the foreign exchange rate applied to conversion of the foreign currency to the functional currency. Foreign-currency-denominated assets and liabilities that have significant influence:

December 31, 2016

	Foreign currency	Foreign exchange rate	Book value
Foreign currency assets			
Monetary items			
USD	$ 3,628	32.24	$116,963
RMB	12,365	4.62	57,088
HKD	994	4.16	4,135
			$ 178,186
Foreign currency liabilities			
Monetary items			

USD	1,504	32.15	$ 48,360
HKD	1,139	4.13	4,708
			$ 53,068

December 31, 2015

	Foreign currency	Foreign exchange rate	Book value
Foreign currency assets			
Monetary items			
USD	$ 5,370	32.82	$176,264
RMB	10,394	5.00	51,919
HKD	841	4.24	3,562
			$ 231,745
Foreign currency liabilities			
Monetary items			
USD	1,226	32.63	$ 40,007
HKD	1,113	4.17	4,641
			$ 44,648

Foreign-currency-denominated exchange income (unrealized) that has significant influence:

	2016		2015	
Foreign currency	Foreign exchange rate	Net exchange income	Foreign exchange rate	Net exchange income
USD	32.26 (USD:NTD)	$ 938	32.82 (USD:NTD)	$ 1,124
HKD	4.16 （HKD:NTD）	(128)	4.23 （HKD:NTD）	(178)
RMB	4.84 (RMB:NTD)	28	5.00 (RMB:NTD)	(768)
		$ 838		$ 178

30. Noted disclosure

(1) Important transactions and (2) Information about investees:

1. Funds granted to others: N/A
2. Endorsements and guarantees made for others: N/A
3. Marketable securities-end (exclusive of those held by investment in subsidiaries): see Schedule 1.
4. Cumulative amount of the same marketable securities purchased or sold reaching 300 million NTD or more than 20% of the paid-in capital: N/A.
5. Cumulative amount of the same marketable securities purchased or sold reaching 300 million NTD or more than 20% of the paid-in capital: N/A.
6. Amount on disposal of real estate reaching 300 million NTD or more than 20% of the paid-in capital: N/A.

7. Purchase/sale amount of transactions with related parties reaching 100 million NTD or more than 20% of the paid-in capital: N/A.

8. Accounts receivable-related party reaching 100 million NTD or more than 20% of the paid-in capital: N/A.

9. Transactions of derivatives: See Note 7.

10: Others: Business relationships and material transactions between the parent company and subsidiaries: see Schedule 2.

11. Information about investees: see Schedule 3.

(3) Information about investment in Mainland China:

1. Name of investee in Mainland China, principal business, paid-in capital, mode of investment, outward/inward remittance of funds, shareholding percentage, investment income, book value of investment, ending, investment income repatriated to Taiwan, and limit of investment in Mainland China: see Schedule 4.

2. Direct or indirect major transactions between the invested companies in Mainland China and the Company, and the price, payment terms and unrealized income thereof: see Schedule 5.

(1) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period.

(2) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period.

(3) The amount of property transactions and the amount of the resultant gains or losses.

(4) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes.

(5) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds.

(6) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receiving of services.

31. <u>Information by department</u>

It refers to the information provided to the decision maker to allocate resources and evaluate departments' performance, primarily focused on the types of product or labor service as delivered or provided. The consolidated companies primarily engaged in MCU products, namely the IC design business, dedicated to the principal business. The information provided to the decision maker to allocate resources and evaluate departments' performance is that identified in the consolidated financial statements.

(1) Revenue from main product

	2016	2015
MCU	$ 602,098	$ 571,986

(2) Information by territory

The Company primarily operates in two territories - Taiwan and Mainland China.

The consolidated companies' continued operations revenue from external customers is listed as follows by territory of operation and non-current assets:

	Revenue from external customers		Non-current assets	
	2016	2015	December 31, 2016	December 31, 2015
Taiwan	$598,467	$566,811	$201,419	$206,967
Mainland China	3,631	5,175	676	1,079
	$ 602,098	$ 571,986	$ 202,095	$ 208,046

The consolidated companies' revenue by territory was calculated based on the territory where the revenue was generated. The non-current assets refer to fixed assets and other assets, exclusive of financial instruments and deferred income tax assets.

(3) Information about important customers

Customers from whom the income accounts for more than 10% of the consolidated companies' total sale revenue in 2016 and 2015:

	2016		2015	
Customer's name	Amount	Percentage	Amount	Percentage
Company A	$193,554	32	$263,129	46
Company B	153,589	26	114,755	20
Company C	60,845	10	9,048	2

MEGAWIN Technology Co., Ltd. and its subsidiaries

Marketable securities-end

December 31, 2016

Schedule 1

Unit:NT$ thousand, unless otherwise noted

Holder of securities	Type and Name	Affiliation with issuer	Account title	Ending				Remarks
				Number of shares	Book value	Ratio of Shareholding	Fair value	
The Company	Government bond	N/A	Cash and cash equivalents	-	$ 50,000	Not applicable	$ 50,000	No guarantee or pledge was made.
	Government bond	N/A	Investments in Debt Instrument with No Active Market	-	21,400	Not applicable	21,400	Same as above
	GOALTOP TECHNOLOGY CORPORATION	N/A	Financial assets in available-for-sale - noncurrent	300	-	2.50%	-	Same as above

Note: For the information about investment in a subsidiary, please see Schedule 3 and Schedule 4.

MEGAWIN Technology Co., Ltd. and its subsidiaries

Business relationship and material transactions between parent company and subsidiaries

January 1~December 31, 2016

Schedule 2

Unit: NT$ thousand

No. (Note 1)	Name of trader	Trading counterpart	Affiliation to trader (Note 2)	Transaction			
				Title	Amount	Trading conditions	Percentage in consolidated total revenue or total assets (Note 3)
0	MEGAWIN Technology Co., Ltd.	MEGAWIN TECHNOLOGY SHENZHEN COMPANY LIMITED	(1)	Operating revenue	$ 2,309	Note 5	-
				Selling expenses	14,803	Note 6	2%
				Other payables	1,144	-	-

Note 1: The information about transactions between parent company and subsidiaries shall be numbered and noted in the following manner in the box of numbers:

(1)) "0" for the parent company

(2) Subsidiaries shall be numbered from 1 in accordance with the type of company.

Note 2: The affiliation to traders shall be numbered and noted in the following three types (provided that the same transaction between the parent company and subsidiary, or subsidiaries does not need to be disclosed repeatedly. For example, if the parent company has disclosed any transaction between the parent company and subsidiary, it is not necessary to disclose the same transaction between subsidiaries again. If a transaction between subsidiaries has been disclosed by either of the subsidiaries, the other subsidiary does not need to disclose the same transaction again.):

(1) Parent company vs. subsidiary

(2) Subsidiary vs. parent company

(3) Subsidiary vs. subsidiary

Note 3: Percentage in consolidated total revenue or total assets shall be calculated at the percentage of the balance-end in consolidated total assets, in the case of asset/liability titles, and at the percentage of cumulative amount-midterm in consolidated total revenue, in the case of income titles.

Note 4: The major transactions referred to herein may be identified based on the materiality principle subject to the Company's sole discretion.

Note 5: The trading price of the Company's transactions with related parties was agreed by both parties. Generally, the collection period was OA 30 days.

Note 6: The Company appointed MEGAWIN TECHNOLOGY SHENZHEN COMPANY LIMITED to provide the after-sale service to customers in the territories of Mainland China. The Company would pay the after-sale service fees at specific percentage per the agreement.

MEGAWIN Technology Co., Ltd. and its subsidiaries

Information related to the investees, such as names and locations, etc.

January 1~December 31, 2016

Schedule 3

Unit: NTD and foreign currency thousand dollars/thousand shares

Investor	Investee	Address	Principle Business	Original investment cost		End			Investee Income in the current period	Investment income recognized in the current period	Remarks
				End of the current period	End of the previous period	Quantity (thousand shares)	Percentage (%)	Book value			
The Company	Regent Pacific Management Ltd.	Mauritius	General investment	$ 30,824 (US$ 921)	$ 30,824 (US$ 921)	921	100	$ 17,929	$ 100	$ 100	Subsidiary
Regent Pacific Management Ltd.	MEGAWIN TECHNOLOGY H.K. COMPANY LIMITED	Hong Kong	IC design service, trading and general investment	12,238 (US$ 385)	12,238 (US$ 385)	3,129	100	14,499	231	231	Indirect subsidiary
MEGAWIN TECHNOLOGY H.K. COMPANY LIMITED	MEGAWIN TECHNOLOGY SHENZHEN COMPANY LIMITED	Mainland China	IC design service, trading and general investment	9,459 (US$ 300)	9,459 (US$ 300)	300	100	10,609 (HK$ 2,552)	415 (HK$ 100)	415 (HK$ 100)	Great-grandson subsidiary

Note: For the information about investees in Mainland China, please see Schedule 4.

MEGAWIN Technology Co., Ltd. and its subsidiaries

Information about investment in Mainland China

January 1~December 31, 2016

Schedule 4 Unit: NT$ thousand, unless otherwise noted

Name of investee in Mainland China Company name	Principle Business	Paid-in Capital	Mode of investment	Cumulative investments outward remitted from Taiwan at beginning	Investment Remittance or Regain during the fiscal Year		Amount accumulated, remitted from Taiwan for investment in Mainland China at the end of the current term	Investee Income in the current period	The Company's Direct or Indirect Investment Holding Ratio	Investment income recognized in the current period	Investment, ending Book value	Investment income repatriated to Taiwan in the current period	Remark
					Outward remitted	Repatriated							
MEGAWIN TECHNOLOGY SHENZHEN COMPANY LIMITED	IC design service, trading and general investment	$ 9,459 (US$ 300 thousand)	Note 1	$ 9,459 (US$ 300 thousand)	$ -	$ -	$ 9,459 (US$ 300 thousand)	$ 415 (HK$ 100 thousand)	100%	$ 415 (HK$ 100 thousand) (Note 2)	$ 10,609 (HK$ 2,552 thousand)	$ -	—

Amount accumulated, remitted from Taiwan for investment in Mainland China at the end of the current term	Investment Amount Approved by the Investment Commission of MOEAIC	Mainland China Investment Ceiling As Regulated by Investment Commission of MOEAIC
US$300 thousand (equivalent to NT$9,459 thousand)	US$300 thousand (equivalent to NT$9,459 thousand)	NT$319,069 thousand

Note 1: Invested through the company invested by Regent Pacific Management Limited in the third region, MEGAWIN TECHNOLOGY H.K. COMPANY LIMITED.

Note 2: The investment income recognized in the current period was recognized based on the financial statements audited by the parent company in Taiwan.

MEGAWIN Technology Co., Ltd. and its subsidiaries

Direct or indirect major transactions between the invested companies in the Mainland China and the Company, and the price, payment terms and unrealized income thereof, and related information

January 1~December 31, 2016

Schedule 5 Unit: NT$ thousand

Name of investee in Mainland China	Type of transaction	Amount	Percentage	Price	Trading conditions		Receivable (payable) notes/accounts		Unrealized profit/loss	Remark
					Payment term	Comparison with the general suppliers	Balance	Percentage		
MEGAWIN TECHNOLOGY SHENZHEN COMPANY LIMITED	Sales revenue	$ 2,309	-	As agreed	Subject to the general terms and conditions	—	$ -	-	$ -	-
	Selling expenses	14,803	55%	As agreed	Subject to the general terms and conditions	—	(1,144)	2%	-	-

Appendix 2. An individual financial statement for the most recent fiscal year, certified by a CPA.

MEGAWIN Technology Co., Ltd.

Individual financial statements and auditor's report

2016 and 2015

Address: 7F-1, No. 8, Taiyun 1st St., Zhubei City, Hsinchu County

Tel. No.: (03)5601501

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Auditor's report

To: MEGAWIN Technology Co., Ltd.

Opinion

We have audited the accompanying individual balance sheet of MEGAWIN Technology Co., Ltd. as of December 31, 2016 and 2015, and the individual comprehensive income statement, individual statement of changes in equity and individual cash flow statement from January 1 to December 31, 2016 and 2015, as well as the notes to the individual financial statements (including the summary of significant accounting policies).

In our opinion, said financial statements present fairly, in all material respects, the separate financial position of MEGAWIN Technology Co., Ltd. as of December 31, 2016 and 2015, and the results of their individual operations and cash flows from January 1 to December 31, 2016 and 2015 in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for the audit opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and the auditing standards generally accepted in the Republic of China. Our responsibilities required under said standards will be detailed in the paragraph about the external auditor's responsibility on auditing consolidated financial statements. Our firm's staff subject to the independence requirements have maintained their independent attitude with MEGAWIN Technology Co., Ltd. pursuant to the CPAs' ethical code, and perform the other responsibilities required under said code. We believe that we have obtain sufficient and valid evidence which may afford to serve as the basis for audit opinion.

Key audit matter (KAM)

The key audit matter (KAM) refers to the most important matter included in our audit on the consolidated financial statements 2016 of MEGAWIN Technology Co., Ltd. based on our professional judgment as the CPA. Said matter has been responded to during the overall audit on the individual financial statements and preparation of the audit opinion.

We hereby state the key audit matter (KAM) included in our audit on the individual financial statements 2016 of MEGAWIN Technology Co., Ltd. as follows:

KAM 1

1. MEGAWIN Technology Co., Ltd. refers to a company engaged in IC design, whose sales revenue varies depending on their customers' acceptability of products, and stock price as well. Therefore, we presuppose that there might be a risk regarding the management's false reporting of increases in revenue.
2. MEGAWIN Technology Co., Ltd. is primarily engaged in selling MCU. About 35% of the products are shipped to customers directly via the IC testing company based in Mainland China, instead of the warehouses of MEGAWIN Technology Co., Ltd.. Given this, the closing of revenue might be deferred for the purpose contemplated by the management in the preceding paragraph.
3. Our audit procedure covers:
   (1) Verification of the procedure for recognition of revenue generated from the shipment via the IC testing company and execution of relevant control tests.
   (2) Checks on whether there is earlier recognition based on the recognized revenue from shipments via the IC testing company in Mainland China on December 31, 2016 and for the previous four days.

KAM 2

1. The inventory of MEGAWIN Technology Co., Ltd. was valued at NT$69,997 thousand on December 31, 2016. This is considered important to the individual financial statements. Please refer to Note 11.
2. MEGAWIN Technology Co., Ltd. is engaged in an industry which might suffer slow-moving or obsolete inventory due to changes of technology. That is, the inventory is likely to be unsalable, or need to be sold at a discount and thereby cause the value of the inventory to be less than the book value thereof. For the related accounting policy and important accounting estimation, please see Note 4 and Note 5.
3. Our audit procedure covers:

(1) We conducted back testing on the inventory evaluation method applied by MEGAWIN Technology Co., Ltd. to validate the reasonableness of the estimation.
(2) In order to test the book value of the inventory, we verified whether the book value is measured at cost or net realizable value, whichever is lower, and evaluate it based on the method applied by MEGAWIN Technology Co., Ltd..

Management's and corporate governance unit's responsibility toward individual financial statements

The management shall be responsible for preparing the individual financial statements which fairly present the company in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and maintaining necessary internal controls over preparation of individual financial statements to ensure that the individual financial statements are free from any misrepresentation resulting from corruption or error.

When preparing the individual financial statements, the management shall also be responsible for evaluating the ability to continue operations of MEGAWIN Technology Co., Ltd., disclosure of related matters, and adoption of the basis for continued operations, unless the management intends to liquidate MEGAWIN Technology Co., Ltd., or to wind up, or there is not any available program other than liquidation or windup.

The corporate governance unit of MEGAWIN Technology Co., Ltd. (Including supervisors) shall be responsible for supervising the financial reporting procedure.

External auditor's responsibilities toward individual financial statements

We conduct the audit on the individual financial statements in order to obtain reasonable assurance about whether the individual financial statements are free from any misrepresentation resulting from corruption or error, and to issue the auditor's report. The reasonable assurance means high assurance. Notwithstanding, the audit conducted in conformity of the auditing standards generally accepted in the Republic of China doesn't warrant discovery of any misrepresentation in the individual financial statements. The misrepresentation might result from corruption or error. Where the misrepresented amount or summarization may be reasonably expected to affect the economic decision made by users of the individual financial statements, such misrepresentation would be considered material.

We exercise our professional judgment and keep suspicious professionally when conducting the audit in accordance with the auditing standards generally accepted in the Republic of China. We also execute the following work:

1. To identify and evaluate the risk over misrepresentation in the individual financial statements resulting from corruption or error, we designed and implemented adequate countermeasures against the evaluated risk, and obtained sufficient and valid evidence which may afford to serve as the basis for our audit opinion. As corruption might involve conspiracy, forgery, intentional omission, misrepresentation or failure to comply with internal control, the risk over failure to detect the material misrepresentation resulting from corruption is higher than that over the misrepresentation resulting from error.
2. To obtain the necessary understanding about the internal control critical to the audit in order to design a suitable audit procedure under the circumstances, but not to express an opinion on the validity of the internal control of MEGAWIN Technology Co., Ltd..
3. To evaluate the validity of the accounting policies adopted by the management, and reasonableness of the accounting estimation and disclosure made by the management.
4. To conclude the validity of the accounting basis for continued operations applied by the management, and the existence of uncertainty regarding events or circumstances which might raise material doubt over the ability to continue operations of MEGAWIN Technology Co., Ltd., based on the evidence obtained by us. Where we believe that some material uncertainty exists in the event or circumstance, we shall remind the users of the individual financial statements in our audit report to note the disclosures related to the individual financial statements, or modify the audit opinion if the disclosure is considered inadequate. Our conclusion is made based on the evidence available until the date of audit report. Notwithstanding, the future event or circumstance might result in failure of MEGAWIN Technology Co., Ltd. to continue operations.
5. To evaluate the overall expression, structure and contents of the individual financial statements (including related notes hereto), and whether the individual financial statements adequately express the related transactions and events.
6. To obtain sufficient and adequate evidence toward the individual financial information of MEGAWIN Technology Co., Ltd. to comment on the individual

financial statements. We are responsible for directing, supervising and conducting the audit on MEGAWIN Technology Co., Ltd., and producing the audit opinion on MEGAWIN Technology Co., Ltd..

The matters communicated between the corporate governance unit and us include the range and time of the planned audit, and material audit findings (including the significant non-conformance in internal control identified in the process of audit).

We also provide the corporate governance unit with the statement of declaration for the compliance of our staff subject to the independence requirements with the independence requirements defined in the CPA's ethical code, and also communicate with the corporate governance unit about the relationships and other matters which are considered potentially affecting the CPA's independence (including related preventive measures).

We decided the key audit matter (KAM) included in our audit on the individual financial statements for 2016 of MEGAWIN Technology Co., Ltd. based on the matters communicated between the corporate governance unit and us. We state the matters in our audit report, unless the laws prohibit disclosure of specific matters, or in some extraordinary circumstance, we decide not to communicate the specific matters in the audit report, as we reasonably expect that the adverse effect arising from the communication is greater than the public interest advanced therefor.

Deloitte & Touche

Tsai, Mei-Chen, CPA	Yeh, Dong-Hui, CPA
FSC Approval No. Chin-Kuan-Cheng-Shen-Tzu No. 1010028123	FSC Approval No. Chin-Kuan-Cheng-Shen-Tzu No. 0980032818

February 14, 2017

MEGAWIN Technology Co., Ltd.

Individual balance sheet

December 31, 2016 and 2015

Unit: NT$ thousand

Code	Assets	December 31, 2016 Amount	%	December 31, 2015 Amount	%
	Current assets				
1100	Cash and cash equivalents (Notes 4, 6 and 26)	$ 146,508	22	$ 232,968	34
1147	Acquisition of investments in Debt Instrument with No Active Market - Current (Notes 4, 9 and 26)	113,900	17	79,965	12
1170	Receivable notes and accounts (Notes 4, 10, 26 and 27)	103,146	16	81,622	12
130X	Inventory (Notes 4, 5 and 11)	69,997	11	53,302	8
1479	Other current assets (Notes 15 and 27)	6,958	1	4,625	1
11XX	Total current assets	440,509	67	452,482	67
	Non-current assets				
1523	Financial assets in available-for-sale – noncurrent (Notes 4, 8 and 26)	-	-	1,046	-
1550	Investment under equity method (Notes 4 and 12)	17,929	2	18,761	3
1600	Property, plant and equipment (Notes 4, 13 and 28)	176,658	27	181,522	26
1780	Intangible assets (Notes 4 and 14)	24,761	4	25,445	4
1920	Refundable deposit (Note 26)	285	-	298	-
15XX	Total noncurrent assets	219,633	33	227,072	33
1XXX	Total assets	$ 660,142	100	$ 679,554	100

Code	Liabilities and equity	December 31, 2016 Amount	%	December 31, 2015 Amount	%
	Current liabilities				
2100	Payable accounts (Notes 4, 16, 26 and 28)	$ -	-	$ 30,000	4
2120	Financial liabilities at fair value through profit or loss (Notes 4, 7 and 26)	461	-	-	-
2170	Payable accounts (Notes 4, 17 and 26)	65,097	10	56,494	8
2200	Other payables (Notes 4, 18, 26 and 27)	47,369	7	51,440	8
2230	Income tax liabilities (Notes 4 and 23)	3,715	1	10,723	2
2300	Other current liabilities (Note 18)	2,443	-	2,320	-
21XX	Total current liabilities	119,085	18	150,977	22
	Non-current liabilities				
2640	Net defined benefit liabilities -noncurrent (Notes 4 and 19)	4,891	1	3,729	-
2645	Guarantee deposit received (Note 26)	4,384	-	4,475	1
25XX	Total noncurrent liabilities	9,275	1	8,204	1
2XXX	Total liabilities	128,360	19	159,181	23
	Equity (Notes 4 and 20)				
	Capital stock				
3110	Capital stock - common stock	392,999	60	392,999	58
3200	Capital surplus	46,702	7	40,339	6
	Retained earnings				
3310	Legal reserve	37,445	6	33,464	5
3350	Undistributed earnings (Note 23)	54,813	8	65,019	10
3300	Total retained earnings	92,258	14	98,483	15
3400	Other equity	(177)	-	755	-
3500	Treasury stock	-	-	(12,203)	(2)
3XXX	Total equity	531,782	81	520,373	77
	Total liabilities and equity	$ 660,142	100	$ 679,554	100

The following notes constitute a part of the individual financial statements.

Chairman: Wen, Kuo-Liang President: Chiu, Shan-Wen Chief Accountant: Hong, Hsien-Ling

MEGAWIN Technology Co., Ltd.

Individual comprehensive income statement

January 1~December 31, 2016 and 2015

Unit: NT$ thousand, except EPS (NT$)

		2016		2015	
Code		Amount	%	Amount	%
4000	Operating revenue, net (Notes 4, 21 and 27)	$ 600,775	100	$ 570,028	100
5000	Operating cost (Notes 11 and 22)	(387,346)	(65)	(355,387)	(62)
5900	Gross profit	213,429	35	214,641	38
	Operating expenses (Notes 22 and 27)				
6100	Selling expenses	(35,260)	(6)	(34,186)	(6)
6200	Administrative expenses	(65,370)	(11)	(63,948)	(11)
6300	R&D expenses	(81,767)	(13)	(76,091)	(14)
6000	Total operating expenses	(182,397)	(30)	(174,225)	(31)
6900	Operating income	31,032	5	40,416	7
	Non-operating revenue and expenditure				
7010	Other revenues (Note 22)	4,492	1	9,488	2
7020	Other gains and losses (Note 22)	(5,338)	(1)	238	-
7050	Financial cost (Note 22)	(6)	-	(212)	-
7070	Share of profit of subsidiary under equity method (Notes 4 and 12)	100	-	526	-
7000	Total non-operating revenue and expenditure	(752)	-	10,040	2
7900	Net profit before tax	30,280	5	50,456	9
7950	Income tax expenses (Notes 4 and 23)	(4,301)	(1)	(10,647)	(2)
8200	Net profit this year	25,979	4	39,809	7

(Continued)

(Brought forward)

Code		2016 Amount	2016 %	2015 Amount	2015 %
	Other comprehensive income (Note 4)				
	Titles not reclassified into income:				
8311	Remeasurement of defined benefit plan (Note 19)	($ 1,535)	-	($ 1,549)	-
	Titles probably reclassified into income subsequently:				
8361	Exchange differences on translation of foreign financial statements	(932)	-	(53)	-
8300	Other comprehensive income this year (net after tax)	(2,467)	-	(1,602)	-
8500	Total comprehensive income this year	$ 23,512	4	$ 38,207	7
	EPS (Note 24)				
9750	Basic	$ 0.67		$ 1.04	
9850	Diluted	$ 0.66		$ 1.02	

The following notes constitute a part of the individual financial statements.

Chairman: Wen, Kuo-Liang President: Chiu, Shan-Wen Chief Accountant: Hong, Hsien-Ling

MEGAWIN Technology Co., Ltd.
Individual Statement of Changes in Equity
January 1~December 31, 2016 and 2015

Unit: NT$ thousand

Code		Capital stock	Capital surplus	Retained earnings: Legal reserve	Retained earnings: Undistributed earnings	Other equity: Foreign operations Translation of financial statements Exchange differences	Treasury stock	Total equity
A1	Balance, January 1, 2015	$ 345,309	$ 17,029	$ 27,728	$ 70,831	$ 808	($ 13,420)	$ 448,285
	Appropriation and distribution of retained earnings 2014							
B1	Legal reserve	-	-	5,736	(5,736)	-	-	-
B5	Cash dividend	-	-	-	(38,336)	-	-	(38,336)
D1	Net profit 2015	-	-	-	39,809	-	-	39,809
D3	Other comprehensive income after tax 2015	-	-	-	(1,549)	(53)	-	(1,602)
D5	Total comprehensive income 2015	-	-	-	38,260	(53)	-	38,207
E1	Capital increase in cash	50,000	22,000	-	-	-	-	72,000
L3	Cancellation of treasury stock	(2,310)	1,093	-	-	-	1,217	-
N1	Compensatory Cost	-	217	-	-	-	-	217
Z1	Balance, December 31, 2015	392,999	40,339	33,464	65,019	755	(12,203)	520,373
	Appropriation and distribution of retained earnings 2015							
B1	Legal reserve	-	-	3,981	(3,981)	-	-	-
B5	Cash dividend	-	-	-	(30,669)	-	-	(30,669)
D1	Net profit 2016	-	-	-	25,979	-	-	25,979
D3	Other comprehensive income after tax 2016	-	-	-	(1,535)	(932)	-	(2,467)
D5	Total comprehensive income 2016	-	-	-	24,444	(932)	-	23,512
N1	Compensatory Cost	-	6,227	-	-	-	-	6,227
N1	Treasury stock transferred to employees	-	136	-	-	-	12,203	12,339
Z1	Balance, December 31, 2016	$ 392,999	$ 46,702	$ 37,445	$ 54,813	($ 177)	$ -	$ 531,782

The following notes constitute a part of the individual financial statements.

Chairman: Wen, Kuo-Liang President: Chiu, Shan-Wen Chief Accountant: Hong, Hsien-Ling

MEGAWIN Technology Co., Ltd.

Individual Cash flow

January 1~December 31, 2016 and 2015

Unit: NT$ thousand

Code		2016	2015
	Cash flow from operating activities		
A10000	Net profit before tax this year	$ 30,280	$ 50,456
	Income Charges (Credits)		
A20100	Depreciation expenses	7,330	6,809
A20200	Amortization expenses	3,271	2,531
A20400	Net loss from financial liabilities at fair value through profit or loss	461	-
A20900	Financial cost	6	212
A20300	Bad debt expenses	643	342
A22400	Share of profit of subsidiary under equity method	(100)	(526)
A21200	Interest revenue	(2,228)	(2,934)
A21900	Share-based payment remuneration cost	6,227	217
A23100	Gain from disposition of investment	(1,000)	-
A23500	Loss from impairment on financial assets	1,046	235
A23700	Loss from price declination and scrapping (gain from reversal) of inventory	(1,692)	6,203
A24100	Unrealized gain from foreign currency exchange	(85)	(146)
	Variances in assets/liabilities related to operating activities		
A31150	Receivable notes and accounts	(21,400)	(9,599)
A31160	Receivable accounts - related party	120	(119)
A31200	Inventory	(15,003)	4,178
A31240	Other current assets	(2,262)	227
A32150	Payable accounts	7,799	1,750
A32180	Other payables	(4,069)	2,885
A32230	Other current liabilities	123	(779)
A32240	Net defined benefit liabilities	(373)	(613)
A33000	Cash inflow from operations	9,094	61,329
A33100	Collected interest	2,157	3,341
A33300	Paid interest	(6)	(212)
A33500	Paid income tax	(11,309)	(921)
AAAA	Net cash inflow (outflow) from operating activities	(64)	63,537

(Continued)

(Brought forward)

Code		2016	2015
	Cash flow from investing activities		
B00400	Proceeds from financial assets in available-for-sale	$ 1,000	$ -
B00600	Acquisition of investments in Debt Instrument with No Active Market	(33,935)	(3,376)
B02700	Acquisition of property, plant and equipment	(2,466)	(3,330)
B03700	Increase in refundable deposit	-	(67)
B03800	Decrease in refundable deposit	13	-
B04500	Acquisition of intangible assets	(2,587)	(1,487)
B07200	Decrease in prepayment for equipment	-	555
BBBB	Net cash outflow from investing activities	(37,975)	(7,705)
	Cash flow from financing activities		
C00100	Increase in short-term loan	-	30,000
C00200	Decrease in short-term loan	(30,000)	-
C01700	Repayment of long-term loan	-	(60,000)
C03100	Decrease in guarantee deposit received	(91)	(45)
C04500	Allocation of cash dividend	(30,669)	(38,336)
C04600	Capital increase in cash	-	72,000
C05100	Employees’ subscription for treasury stock	12,339	-
CCCC	Net cash inflow (outflow) from financing activities	(48,421)	3,619
EEEE	Net increase (decrease) in cash and cash equivalents	(86,460)	59,451
E00100	Balance of cash and cash equivalents, beginning	232,968	173,517
E00200	Balance of cash and cash equivalents, ending	$ 146,508	$ 232,968

The following notes constitute a part of the individual financial statements.

Chairman: Wen, Kuo-Liang President: Chiu, Shan-Wen Chief Accountant: Hong, Hsien-Ling

MEGAWIN Technology Co., Ltd.

Notes to individual financial statements

January 1~December 31, 2016 and 2015

(NT$ thousand, unless otherwise specified)

1. Corporate milestones

MEGAWIN Technology Co., Ltd. (hereinafter referred to as the "Company") was founded on June 21, 1999, primarily engaged in manufacturing and selling electronic instruments and spare parts thereof.

The Company was approved by TPEx to trade at the TPEx in January 2015.

The individual financial statements are expressed in the Company's functional currency, NTD.

2. Date and procedure for ratification of financial report

The individual financial statements were ratified and promulgated by the Board of Directors on February 14, 2017.

3. Application of new and amended standards and interpretations

(1) The amended Regulations Governing the Preparation of Financial Reports by Securities Issuers which have not yet become effective, and IFRS, IAS, IFRIC and SIC of 2017 approved by FSC.

According to the official letters under Ching-Kuan-Cheng-Sheng-Tzu No. 1050050021 and Ching-Kuan-Cheng-Sheng-Tzu No. 1050026834 issued by Financial Supervisory Commission ("FSC"), the Company shall start to apply the IFRS, IAS, IFRIC and SIC of 106 (hereinafter referred to as "IFRSs") released by IASB and approved by FSC, as well as the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers, as of 2017.

New/amended/modified standards and interpretations	Effective date released by IASB (Note 1)
"Improvement from 2010 to 2012"	July 01, 2014 (Note 2)
"Improvement from 2011 to 2013"	July 01, 2014
"Improvement from 2012 to 2014"	January 1, 2016 (Note 3)
Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entity: Application of Exceptions for Consolidated Financial Statements"	January 1, 2016
Amendments to IFRS 11 "Acquisition of an Interest in a Joint Operation"	January 1, 2016
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
Amendments to IAS 1 "Disclosure Initiative "	January 1, 2016

(Continued)

(Brought forward)

New/amended/modified standards and interpretations	Effective date released by IASB (Note 1)
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016
Amendments to IAS 16 and IAS 41 "Agriculture: Productive Plants"	January 1, 2016
Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 01, 2014
Amendments to IAS 27 "Equity Method in Separate Financial Statement"	January 1, 2016
Amendments to IAS 36 "Disclosure of Recoverable Amount of Non-Financial Assets"	January 01, 2014
Amendments to IAS 39 "Novation of Derivatives and Continuance of Hedge Accounting"	January 01, 2014
IFRIC 21 "Levies"	January 01, 2014

Note 1: Unless otherwise specified, said new/amended/modified standards or interpretations shall become effective during the years or periods ended after said respective date.

Note 2: The share-based payment transactions of which the grant date is after July 1, 2014 shall start to apply the amendments to IFRS 2. The business merger of which the acquisition date is after July 1, 2014 shall start to apply the amendments to IFRS 3. The amendments to IFRS 13 shall become effective immediately. The other amendments shall apply during the years or periods starting after July 1, 2014.

Note 3: Except the amendments to IFRS 5, which are deferred and apply during the years or periods starting after January 1, 2016, the other amendments apply during the years or periods starting after January 1, 2016, retroactively.

Except for the following notes, the application of the amended Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs of 2017 do not cause material changes to the Company's accounting policy:

1. Amendments to IAS 36 "Disclosure of Recoverable Amount of Non-Financial Assets"

The amendments to IAS 36 are intended to clarify that the Company only needs to disclose the collectible amount in the period when impairment loss is recognized or reversed. Said amendments will be applied retroactively as of 2017.

2. Improvement from 2010 to 2012

The improvement from 2010 to 2012 includes the amendments to IFRS 2 "SHARE-BASED PAYMENT", IFRS 3 "Business Combinations" and IFRS 8 "Operating Segments".

When the amendments to IFRS 13 are applied retroactively in 2017, the short-term accounts receivables and payables without fixed interest rate upon which the discounting effect is immaterial will be measured based on the original invoicing amount.

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

By the Amendments, Some accounting titles and requirements about disclosure of non-financial assets were added to be in line with the IFRSs applied as of 2017. Meanwhile, to be in line with implementation of the IFRSs domestically, the Company also emphasized certain requirements about recognition and measurement, and also added the disclosure of transactions with related parties and goodwill.

Per the amendments, where the board chairman or president of another company or institution is the same person as the board chairman or president of the Company, or is the spouse or a relative within the second degree or closer of the board chairman or president of the Company, they shall be deemed to have a substantive related party relationship, unless it can be established that no control or significant influence exists. Meanwhile, the amendments require that the information on the name and relationship of the related party who engages in important transactions with the Company shall be disclosed, and where the transaction amount or balance of any single related party reaches 10 percent or more of the Company’s total transaction amount or balance of that type of transaction, the name of each such related party shall be individually presented.

When said amendments are retroactively applied as of 2017, the disclosure about transactions with related parties will be added accordingly.

In addition to said effects, until the date when the individual financial statements were promulgated, the Company still continue to evaluate the effect produced by the Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the amendments to the IFRSs applied as of 2017 to the financial status and performance. The related effects will be disclosed upon completion of the evaluation.

(2) IFRSs promulgated by IASB but not yet recognized by the FSC

The Company does not apply the following IFRSs promulgated by IASB but not yet recognized by the FSC. Before the date when the individual financial statements were promulgated, FSC has not yet promulgated the effective dates for the other standards, except that IFRS 9 and IFRS 15 should be applied as of 2018.

New/amended/modified standards and interpretations	Effective date released by IASB (Note 1)
“Improvement from 2014 to 2016”	Note 2
Amendments to IFRS2: “Classification and Measurement of Share-based Payment Transaction”	January 01, 2018
Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”	January 01, 2018
IFRS 9 "Financial instruments"	January 01, 2018
Amendments to IFRS 9 and IFRS 7 “Compulsory Effective Date and Transitional Disclosure”	January 01, 2018
Amendments to IFRS 10 and IAS 28 “Sale or Investment of Assets between Investors and Their Affiliates or Joint Ventures”	Pending
IFRS 15 “Revenue from Contracts with Customers”	January 01, 2018
Amendments to IFRS 15 “Clarifications to IFRS 15”	January 01, 2018
IFRS 16 "Lease"	January 01, 2019
Amendments to IAS 7 “Disclosure Initiative ”	January 01, 2017

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(Brought forward)

New/amended/modified standards and interpretations	Effective date released by IASB (Note 1)
Amendments to IAS 12 "Recognition of Deferred Income Tax Assets of Unrealized Loss"	January 01, 2017
Amendments to IAS 40 “Conversion of Investment Property”	January 01, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 01, 2018

Note 1: Unless otherwise specified, said new/amended/modified standards or interpretations shall become effective during the years or periods ended after said respective date.

Note 2: The amendments to IFRS 12 are retroactively applied as of January 1, 2017. The amendments to IAS 28 are retroactively applied as of January 1, 2018.

1. IFRS 9 "Financial instruments"

Recognition and measurement of financial assets

Any financial assets applicable under IAS 39 "Financial Instruments: Recognition and Measurement" originally shall be measured based on amortized cost or fair value subsequently. The financial assets are classified in the following manner under IFRS9:

If the contractual cash flows for the bond instruments invested by the Company are solely for the purpose of payments of principal and interest on the principal amount outstanding, the instruments shall be classified and measured as following:

(1) If the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows, the financial assets shall be measured at amortized cost. The interest revenue from such financial assets is stated into income based on effective interest rate subsequently. The impairment thereof is evaluated continuously and the impairment income is stated into income.

(2) If the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows and sell the financial assets, the financial assets shall be measured at fair value

through other comprehensive income. The interest revenue from such financial assets is stated into income based on effective interest rate subsequently. The impairment thereof is evaluated continuously and the impairment income and exchange income are stated into income, while the other changes in fair value are stated into other comprehensive income. When derecognizing or reclassifying the financial asset, the accumulated changes in fair value of other comprehensive income shall be reclassified into income.

The financial assets invested by the Company refer to those other than said assets and are measured at fair value. The changes in fair value are stated into income. Notwithstanding, the Company may designate the investment other than equity investment held for trading to be measured at fair value through other comprehensive income at the time of initial recognition. Except the income from stock dividend on such financial assets that is stated into income, the other related gains and losses are stated into other comprehensive income. No impairment shall be evaluated subsequently. The accumulated changes in fair value of other comprehensive income need not to be reclassified into income either.

Impairment on financial assets

IFRS 9 adopts the "Expected Credit Loss Model" instead to recognize the impairment on financial assets. Allowance for credit loss shall be recognized for financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income compulsorily, receivable leasehold payment, the contractual assets generated from IFRS 15 "Revenue from Contracts with Customers" or contracts for commitment of loaning and financial guarantee. If the credit risk over said financial assets is not increased significantly after the initial recognition, the allowance for credit loss shall be measured based on the expected credit loss for the following 12 months. If the credit risk over said financial assets is increased significantly after the initial recognition, which is not considered low credit risk, the allowance for credit loss shall be measured based on the expected credit loss for the residual period of the duration of the contract. Notwithstanding, for the receivable accounts excluding important financial elements, the allowance for credit loss shall be measured based on the expected credit loss for the duration of the contract.

Meanwhile, for the financial assets on which credit impairment has been recognized at the time of initial recognition, the Company takes the expected credit loss recognized initially to calculate the effective interest rate upon adjustment of credit, and the subsequent allowance for credit loss is measured based on the accumulated changes in subsequent expected credit loss.

Transitional provisions

After IFRS 9 takes effect, the titles derecognized prior to the date of the first-time application shall not be applicable. Classification, measurement and impairment of the financial assets shall be applied retroactively. Notwithstanding, it is not necessary for the Company to re-prepare those for the comparative periods, but to state the accumulated effects which are applicable for the first time on the date of the first-time application. Application of the general hedging accounting shall be deferred. Notwithstanding, the recognition of income from hedging options shall be applied retroactively.

2. IFRS 15 “Revenue from Contracts with Customers” and related amendments thereto

IFRS 15 governs the recognition of revenue from contracts with customers, which will replace IAS 18 "Revenue", IAS 11 "Construction Contracts" and related interpretations.

Upon application of IFRS 15, the Company states the revenue in the following manners:

(1) Identify the contract(s) with a customer;
(2) Identify the performance obligations in the contract;
(3) Determine the transaction price;
(4) Allocate the transaction price to the performance obligations in the contract; and

(5) Recognize revenue when (or as) the entity satisfies a performance obligation.

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

After IFRS 15 and related amendments thereto became effective, the Company could choose to retroactively apply the standard until the comparative period, or state the accumulated effects for the first-time application on the first-application date.

3. IFRS 16 "Lease"

IFRS 16 governs the accounting for lease, which will be replaced by IAS 17 “Lease” and related interpretation.

When applying IFRS 16, where the Company acts as a lessor, small-sum leases and short-term leases may be treated as operating leases similar to that under IAS 17, while the other leases shall be stated as assets and liabilities of the lease on the individual balance sheet. The individual income statement shall express the depreciation expenses of the leased assets and interest expenses on the liabilities of lease calculated at valid interest rate. In the individual cash flow statement, the repayment of principal of the liabilities shall be stated as financing activity, and payment of interest shall be stated as operating activity.

The accounting treatment which holds the Company as the lessor is expected to render no material effect.

After IFRS 16 became effective, the Company may choose to retroactively apply the standard until the comparative period, or state the accumulated effects for the first-time application on the first-application date.

4. Amendments to IAS 12 "Recognition of Deferred Income Tax Assets of Unrealized Loss"

The amendments to IAS 12 are intended to clarify that irrelevant with the investment in bond instruments expected to be measured based on fair value through sale or collection of contractual cash flows by the Company and no matter whether the assets incur unrealized loss or not, the temporary difference shall be decided by the price difference between the fair value of assets and taxation basis.

Meanwhile, unless the tax laws restrict the type of income deductible based on the deductible temporary difference and it is necessary to evaluate whether deferred income tax assets shall be stated based on the deductible temporary difference of the same type, all deductible temporary differences shall be evaluated altogether. When evaluating whether deferred income tax assets shall be stated, if there is sufficient evidence to signify that the Company is very likely to collect assets at the price higher than book value thereof, the collectible amount of assets to be considered in estimation of future taxable income will not be limited to the book value, and the estimation of taxable income shall exclude the effect generated by reversal of deductible temporary difference.

5. IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

IAS 21 requires that the initial recognition of foreign currency transactions generally records foreign currency transactions using the spot conversion rate to that functional currency on the date of the transaction. IFRIC 22 further details that where an enterprise has prepaid or received in advance the consideration prior to initial recognition of non-monetary assets or liabilities, the date of initial recognition of advance consideration shall be identified as the date of the transaction. Where the enterprise prepays or receives in advance the consideration in installment, it shall determine the separate date of transaction for each consideration prepaid or received in advance.

The Company may choose to apply IFRIC 22 retroactively, or defer the application of IFRIC 22 to the date of the first-time application or the commencing date of the comparative period for the financial statements which apply the IFRIC 22 for the first time.

In addition to said effects, until the date when the individual financial statements were ratified and promulgated, the Company still continues to evaluate the effect produced by the amendments to the other standards and interpretations to the financial status and performance. The related effects will be disclosed upon completion of the evaluation.

4. Summary of significant accounting policies as follows

(1) Statement of Compliance

The individual financial statements are prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs recognized by FSC.

(2) Basis for preparation

Except the financial instruments measured at fair value, the individual financial statements were prepared based on the historical cost.

The fair value measurement is categorized into Tier 1~Tier 3, subject to the observable degree and importance:

1. Tier 1 input value: The public quotation for the same financial assets or liabilities in an active market on the date of measurement (without adjustment).
2. Tier 2 input value: The observable input value other than Tier 1 quotation accessed from assets or liabilities directly (e.g., price) or indirectly (e.g., inferred from the price)
3. Tier 3 input value: The non-observable input value of assets or liabilities.

When preparing the individual financial statements, the Company treated the investment in subsidiaries under equity method. In order to have the current income, other comprehensive income, and equity in the individual financial statements match the current income, other comprehensive income and equity attributed to the owners of the parent company in the Company's consolidated financial statements, several variances in accounting treatment under individual basis and consolidated basis resulted from adjustment of the "investment under the equity method", "share of income of subsidiaries under the equity method", and related equity titles.

(3) Current and non-current assets and liabilities

Current assets include:

1. Assets primarily held for the purpose of trading;
2. Assets expected to be realized within 12 months after the date of the balance sheet; and
3. Cash or cash equivalents (exclusive of the assets to be used for an exchange or to settle a liability, or otherwise remain restricted at more than 12 months after the date of the balance sheet).

Current liabilities include:

1. Liabilities primarily held for the purpose of trading;
2. Liabilities expected to be repaid within 12 months after the date of the balance sheet; and
3. Liabilities of which the Company does not have an unconditional right to defer settlement for at least 12 months after the date of the balance sheet.

Any liabilities other than the current assets or liabilities shall be classified into noncurrent assets or liabilities.

(4) Foreign currency

The transactions stated in any currency (foreign currency) other than the Company's functional currency when the Company prepared the separate financial statement shall be re-stated in the functional currency converted based at the foreign exchange rate prevailing on the trading day.

The foreign monetary items shall be converted based on the closing exchange rate on each balance sheet date. The exchange difference derived from settlement of monetary items or conversion of monetary items shall be stated as income in current year.

The non-monetary items at historical cost denominated in foreign currency shall be converted at the exchange rate on the date of transaction.

(5) Inventory

Inventory includes raw material, finished goods and work in process. The inventories shall be stated at the lower of cost and net realizable present value. When the cost and net realizable value are compared, inventory write-downs are made on an item-by-item basis, except where it may be appropriate to group similar or related items. Net realizable value means the estimated selling price of inventories less all estimated costs of completion and necessary selling costs. The cost of inventory shall be calculated under the weighted average method.

(6) Investment in subsidiaries

The Company treated investment in subsidiaries under the equity method.

The subsidiary means the entity over which the Company has control.

Under the equity method, the initial investment is stated at cost. The book value after the date of acquisition shall be increased or decreased according to the share of income on subsidiaries and allocation of profit on subsidiaries vested in the Company. Meanwhile, the variances in other equity of subsidiaries vested in the Company were recognized subject to the shareholdings.

The unrealized gain or loss generated from downstream transactions by the Company and its subsidiaries shall be derecognized in the individual financial statement.

(7) Property, plant and equipment

Property, plant and equipment shall be stated at cost initially. The following evaluation is based on the cost less accumulated depreciation and accumulated impairment loss.

The Company provides depreciation for each important element of property, plant and equipment under the straight line method within the expected useful years. The Company shall review the useful years, residual value and depreciation method at least once at the end of each year, and treat the effect on changes in accounting estimation in a deferral manner.

The price difference between net proceeds from disposition of assets and book value of the assets shall be stated as income, when the property, plant and equipment are derecognized.

(8) Intangible assets

1. Acquired separately

The intangible assets within limited useful years that are acquired separately shall be stated at cost initially. The following evaluation thereof shall be based on the cost less accumulated amortization and accumulated impairment. The intangible assets are amortized under the straight line method within the limit of useful years, and the useful years, residual value and amortization method shall be reviewed at the end of each year. The effect on changes in accounting estimation shall be treated in a deferral manner. The intangible assets within uncertain useful years are stated at cost less accumulated impairment loss.

2. Domestically generated - R&D expenditure

Research expenditure is stated as expenses when it is incurred.

3. Derecognition

The price difference between net proceeds from disposition of assets and book value of the assets shall be stated as income, when the intangible assets are derecognized.

(9) Impairment on tangible and intangible assets

The Company shall evaluate on each balance sheet date whether there is any sign showing that tangible and intangible assets might suffer impairment. If there is, it is necessary to evaluate the collectible amount of the assets. It is impossible to evaluate the collectible amount of individual asset, the consolidated companies shall evaluate the collectible amount of the cash generation unit vested in the asset.

The collectible amount is the higher of fair value less selling cost and its use value. If the collectible amount of individual asset or cash generation unit is less than the book value of the asset, the book value shall be reduced to the collectible, and the impairment loss is stated as income.

When the impairment loss is reversed subsequently, the book value of the asset or cash generation unit shall be increased to the collectible amount after the amendments, provided that the increased book value shall be no more than the book value of the asset or cash generation unit if no impairment loss was recognized in the previous year (less amortization or depreciation). The reversal of impairment loss is stated as income.

(10) Financial instruments

Financial assets and financial liabilities are stated into the individual balance sheet when the Company became a part to the financial instrument contract.

When recognizing the financial assets or liabilities other than those measured at fair value through profit or loss initially, such assets or liabilities shall be evaluated based on fair value, plus the transaction cost directly attributable to acquisition or issuance of financial assets or financial liabilities. The transaction cost directly attributable to acquisition or issuance of financial assets or financial liabilities at fair value through profit or loss shall be stated as income immediately.

1. Financial assets

The customary transactions of financial assets shall be recognized and derecognized on the date of transaction.

(1) Types of measurement

The financial assets held by the Company are classified into financial assets in available-for-sale, loans and receivable accounts.

A. Financial assets in available-for-sale

Such financial assets are designated as available-for-sale or are not derivative financial, or are not classified into loans and receivable accounts, held-to-maturity investment or financial assets at fair value through profit or loss.

Financial assets in available-for-sale are measured at fair value. The foreign currency exchange income and interest revenue calculated at effective interest method in the changes of book value of monetary financial assets in available-for-sale, and the stock dividend on equity investment in available-for-sale, shall be stated as income. The other changes in the book value of financial assets in available-for-sale are stated in other comprehensive income, reclassified into income at the time of disposition of investment or confirmation of impairment.

B. Loans and receivable accounts

The loans and receivable accounts (including cash and cash equivalents, bond investment without active market, and receivable notes and accounts) shall be evaluated based on amortized cost less impairment loss under effective interest method, unless the recognition of the interest on short-term accounts receivable is insignificant.

The cash equivalents include the bank time deposits and Repo that have high liquidity within three months, and may be readily convertible to known amounts of cash and subject to an insignificant risk of changes in value, intended to satisfy the short-term cash commitment.

(2) Impairment on financial assets

The impairment on any financial assets other than financial assets at fair value through profit or loss shall be evaluated on each balance sheet date. If there is any objective evidence showing that the future cash flow of the financial assets is affected due to a single or multiple events occurring after the initial recognition of the financial assets, the financial assets shall be deemed impaired.

If there is not any objective evidence showing impairment on financial assets stated at amortized cost, such as accounts receivable and other accounts receivable, upon individual evaluation, the impairment shall be evaluated again collectively. The combined objective evidence for accounts receivable might include the Company’s past experience in collection, the increase in overdue payment, and observable national or regional economic changes related to the defaulted receivable accounts.

The recognized impairment loss on the financial assets measured at amortized cost is the difference in the book value of financial assets and the present value after the projected cash flow is discounted at initial interest rate.

Where the decrease in impairment, if any, when the financial assets are measured at amortized cost is objectively related to the events subsequent to recognition of impairment loss, the impairment loss recognized previously shall be reversed and stated as income directly or via adjustment of the allowance account, provided that the book value of such assets upon the reversal shall be no more than the cost after amortization if the impairment was not recognized.

Meanwhile, the fair value of equity investment in available-for-sale declining drastically or permanently until it is less than the cost of the equity investment also constitutes the objective evidence about of impairment.

The other objective evidence about impairment on financial assets includes obvious financial problems confronting the issuer or debtor, breach (e.g., overdue or non-performance of interest or principal payment), the debtor likely to wind up or proceed with other financial reorganizations, and the active market of financial assets extinguishing due to financial difficulty.

When the assets in available-for-sale are impaired, the accumulated gain and loss already stated as other comprehensive income will be reclassified as income.

The impairment loss on equity instruments in available-for-sale that was initially recognized as income shall not be reversed. The revaluation of fair value upon recognition of impairment loss, if any, shall be stated as other comprehensive income. If the revaluation of fair value of obligation instruments in available-for-sale is objectively related to the events subsequent to recognition of impairment loss, it shall be reversed and stated as income.

The impairment loss on financial assets shall be deducted from the book value of financial assets, provided that the book value of receivable accounts and other receivable accounts is adjusted through allowance accounts. If the receivable accounts and other receivable accounts are held uncollectible, they shall write off against the allowance accounts. The accounts initially written off but collected afterwards are credited into the allowance accounts. Unless the receivable accounts and other receivable accounts write off against the allowance accounts because they are held uncollectible, the changes in book value of allowance account shall be stated as income.

(3) Derecognition of financial assets

The Company will derecognize financial assets only when the contractual rights toward the cash flow of the assets are terminated or the financial assets are transferred and the risk and return over the ownership of the assets are transferred to another enterprise.

When derecognizing a single financial asset in whole, the price difference between the book value and collected or collectible total consideration plus the value recognized as other comprehensive income shall be recognized as income.

2. Equity instruments

The obligation and equity instruments issued by the Company are classified into financial liabilities or equities according to the definitions of the financial liabilities and equity instruments referred to in the agreement.

The equity instruments issued by the Company shall be recognized based on the payment of acquisition less the directly issuing cost.

The recalled equity instruments of the Company shall be recognized and derecognized under equity titles. Purchase, sale, issuance or cancellation of the Company's equity instruments shall not be stated into income.

3. Financial liabilities

(1) Following measurement

All liabilities are measured under the effective interest method at amortized cost, except:

<u>Financial liabilities at fair value through profit or loss</u>

Financial liabilities at fair value through profit or loss include financial liabilities held for trading.

The financial liabilities held for trading are measured at fair value. The gains or losses from re-measurement thereof are stated as income. For the approach to determine the fair value, please see Note 26.

(2) Derecognition of financial liabilities

When derecognizing a financial liability in whole, the price difference between the book value and paid consideration (including any transferred assets other than cash or liabilities)) shall be recognized as income.

(11) Recognition of revenue

The revenue is stated at the fair value of received or receivable consideration less the sale returns, sales discount and similar discount. Sales return was provided based on the amount of future returned goods estimated according to past experience and other critical factors reasonably.

1. Sale of goods

   The revenue from sale of goods shall be recognized upon satisfaction of the following conditions:

   (1) The Company transferred major risk and return over the ownership of goods to the buyer;
   (2) The Company discontinued participation in the management of, or maintenance of effective control over, the sold goods;
   (3) The revenue may be measured reliably;
   (4) The economic effect related to transactions is very likely to flow into the Company; and
   (5) The cost related to transactions, incurred or to be incurred, may be measured reliably.

   The major risk and return over ownership of processed goods are not transferred at the time of processing on order, the processing will not be treated as sale of goods.

2. Interest revenue

   The interest revenue from financial assets shall be stated when the economic effect is very likely to flow into the consolidated companies and the amount thereof may be measured reliably. The interest revenue shall be stated based on the outstanding capital and applicable valid interest rate on an accrual basis, by the lapse of time.

(12) Employee benefits

1. Short-term employee benefits

   Liabilities related to short-term employee benefit shall be measured at non-discounted rate expected to be paid in exchange of employees' services.

2. Termination benefit

A pension under a defined contribution plan shall be stated as a current expense during the employee service years.

The defined benefit cost under the defined benefit pension plan (including service cost, net interest and re-measurement) is actuated based on the Projected Unit Credit Method. The service cost (including the service cost in the current period) and net interest on net defined benefit liabilities are stated employee benefit expenses when they are incurred. The remeasurement (including actuated income and return on planned assets less interest) is stated into other comprehensive income and included into the retained earnings when it is incurred, but shall not be reclassified into income subsequently.

The net defined benefit liabilities refer to the allocation shortfall of the defined benefit pension plan.

(13) Employee stock options

Employee stock options to employees

The employee stock options to employees shall be measured at the fair value decided on the grant date and the best estimated quantity of projected vested equity instruments on the straight-line basis, and adjust the capital surplus-employee stock options, within the vested period. If the expenses are vested immediately on the grant date, the expenses shall be recognized in whole on the grant date.

The Company shall modify the estimated quantity of projected vested employee stock options on each balance sheet date. If the initial estimated quantity is modified, the effect hereof shall be recognized to have the accumulated expenses reflect the modified estimates and also adjust the capital surplus-employee stock option relatively.

(14) Income tax

Income tax expenses mean the total of current income tax and deferred income tax.

1. Current income tax

The 10% additional income tax levied on unallocated earnings calculated according to the Income Tax Law is stated as the income tax expenses in the year of the resolution made by the shareholders' meeting.

The adjustment of payable income tax for previous years is stated as current income tax.

2. Deferred income tax

The deferred income tax is recognized based on the book value of assets and liabilities and temporary difference generated from the taxation basis for assets and liabilities. The deferred income tax liabilities are recognized based on the taxable temporary difference, while the deferred income tax assets are recognized when it is very likely to generate taxable income enough to deduct temporary difference and income tax credit generated from R&D expenditure.

The taxable temporary difference related to investee subsidiaries is stated as deferred income tax liabilities, unless the Company is able to control the timing of reversal of temporary difference, and the temporary difference is very unlikely to be reversed in the foreseeable future. The deferred income tax assets generated from deductible temporary difference related to such investment will be recognized only when they are very likely to generate taxable income enough to realize the gain on temporary difference and expected to be reversed in the foreseeable future.

The book value of deferred income tax assets shall be re-checked on each balance sheet date, and the book value of the assets which are very unlikely to generate enough taxable income to recall all or some of the assets shall be decreased. Those which were not recognized as deferred income tax assets initially shall be re-checked on each balance sheet date, and the book value of the assets which are very likely to generate taxable income enough to recall all or some of the assets shall be increased.

The deferred income tax assets and liabilities are measured at the tax rate prevailing when the assets are expected to be realized or liabilities are expected to be repaid, and based on the statutory tax rate or tax rate substantially enacted on the balance sheet date. The evaluation of deferred income tax liabilities and assets is intended to reflect the taxation consequence arising from the book value of assets and liabilities expected by an enterprise to be collected or repaid on the balance sheet date.

3. Current and deferred income tax

Current and deferred income tax is stated into income, provided that the current and deferred income tax related to other comprehensive income is stated into other comprehensive income separately.

5. Significant accounting judgments, estimations, and major sources of hypotheses of uncertainty

When adopting any accounting policies, the Company's management shall make the related judgment, estimation and hypotheses toward the related information that cannot be obtained from other source easily based on historical experience and other critical factors. The actual result may vary from the estimation.

The management will continue to review the estimation and basic hypotheses. If modification to estimation only renders effect during the current period, it shall be recognized in the current period. If the modification to accounting estimation renders effect during the current period and in the future, it shall be recognized during the current period and in the future.

Impairment on inventory

Net realizable value was the estimated selling price of inventories less all estimated costs of completion and necessary selling costs. The estimates were based on the current market status and historical experience in selling similar goods. The estimation result might vary depending on changes of the market condition.

6. Cash and cash equivalents

	December 31, 2016	December 31, 2015
Cash on hand and working capital	$ 262	$ 216
Demand deposits	26,087	21,470
Cash equivalents (Investment to expire within three months initially)		
Bank time deposits	70,159	105,182
Repo	50,000	106,100
	$146,508	$232,968

7. Financial instruments at fair value through profit or loss

	December 31, 2016	December 31, 2015
Financial liabilities - current		
Held for trading		
Derivative instruments (without designated hedge)		
— Forward Foreign Exchange Contracts(1)	$ 461	$ -

(1) The forward foreign exchange contracts which didn't apply the hedging accounting or hadn't yet been matured on the balance sheet date:

December 31, 2016

	Currency type	Maturity	Contract amount (NT$ thousand)
Forward foreign exchange - sell	RMB exchanged for NTD	From January 16, 2017 to February 16, 2017	RMB 7,947

The Company engaged in forward foreign exchange rate transactions primarily in order to hedge against the risk over foreign currency assets and liabilities arising from fluctuations in foreign exchange rates.

8. Financial assets in available-for-sale

	December 31, 2016	December 31, 2015
Non-current		
Domestic investment		
Unlisted/non-OTC stock	$ -	$ 1,046

9. Investments in Debt Instruments with No Active Market

	December 31, 2016	December 31, 2015
Current		
Bank time deposit to expire after more than three months initially	$ 92,500	$ 79,965
Repo to expire after more than three months initially	21,400	-
	$ 113,900	$ 79,965

Until December 31, 2016 and 2015, the interest rate ranges of the bank time deposits and Repo to expire after more than three months initially were 0.35%~1.04% and 0.88%~2.9%.

10. Receivable notes and receivable accounts

	December 31, 2016	December 31, 2015
Receivable notes		
Incurred for business	$ 3,512	$ 3,303
Receivable accounts		
Receivable accounts	$102,694	$ 80,616
Less: allowance for bad debt	(3,060)	(2,417)
	99,634	78,199
Receivable accounts - related party	-	120
	$ 99,634	$ 78,319

The loan period for sale of goods granted by the consolidated companies lasts 5~65 days. When deciding collectability of receivable accounts, the Company would consider any changes in credit quality of receivable accounts from the date of initial loan until the balance sheet date. According to the historical experience, there were no receivable accounts overdue for more than 360 days. Meanwhile, based on the conservative and stable policy, the Company provided 100% allowance for bad debt for receivable accounts overdue for more than 360 days, and provided the allowance for bad debt for receivable accounts overdue for no more than 360 days, according to the trading counterpart's record and analysis on its financial position.

The age of account for receivable accounts is analyzed as following:

	December 31,	December 31,

	2016	2015
0～30 days	$ 102,694	$ 80,736

Said age of account analysis was conducted based on the post date.

The Company had no overdue but unimpaired or individually impaired receivable accounts on the balance sheet date

The information about changes in allowance for bad debt for receivable accounts:

	2016	2015
Balance, beginning	$ 2,417	$ 2,075
Add: Expenses for bad debt provided this year	643	342
Balance, ending	$ 3,060	$ 2,417

11. Inventory

	December 31, 2016	December 31, 2015
Finished goods	$ 40,332	$ 34,236
Work in process	24,014	14,458
Raw materials	5,651	4,608
	$ 69,997	$ 53,302

The cost of sold goods related to inventory in 2016 and 2015 were NT$387,346 thousand and NT$355,387 thousand.

The cost of sold goods related to inventory in 2016 included the price recovery from net realizable value of inventory, NT$6,007 thousand, and the loss from scrapping of inventory, NT$4,315 thousand. The cost of sold goods related to inventory in 2015 included the loss from price decline of inventory, NT$6,203 thousand. The price recovery from net realizable value of inventory primarily resulted from the increase in selling price of the inventory in specific markets.

11. Investment under equity method

	December 31, 2016	December 31, 2015
Investment in subsidiaries		
Unlisted (non-OTC) companies		
Regent Pacific Management Ltd.	$ 17,929	$ 18,761

Subsidiary	Percentage of ownership and voting right December 31, 2016	December 31, 2015
Regent Pacific Management Ltd.	100%	100%

For the statement of investment in subsidiaries directly held by the Company, please see Note 31.

The income of subsidiaries under the equity method and share of other comprehensive income in 2016 and 2015 were recognized based on the financial statement of the various subsidiaries covering the same period as audited by the external auditor.

13. Property, plant and equipment

	Own land	Building	R&D equipment	Furniture & fixture	Other equipment	Leasehold improvement	Total
Cost							
Balance, January 1, 2015	$ 45,279	$136,298	$ 2,491	$ 8,607	$ 6,865	$ -	$199,540
Addition	-	-	-	1,740	890	700	3,330
Disposition	-	-	(29)	-	-	-	(29)
Balance, December 31, 2015	$ 45,279	$136,298	$ 2,462	$ 10,347	$ 7,755	$ 700	$202,841
Accumulated depreciations							
Balance, January 1, 2015	$ -	$ 2,931	$ 1,926	$ 3,434	$ 6,248	$ -	$ 14,539
Disposition	-	-	(29)	-	-	-	(29)
Depreciation expenses	-	3,760	216	1,703	840	290	6,809
Balance, December 31, 2015	$ -	$ 6,691	$ 2,113	$ 5,137	$ 7,088	$ 290	$ 21,319
Net, December 31, 2015	$ 45,279	$129,607	$ 349	$ 5,210	$ 667	$ 410	$181,522
Cost							
Balance, January 1, 2016	$ 45,279	$136,298	$ 2,462	$ 10,347	$ 7,755	$ 700	$202,841
Addition	-	-	574	1,492	400	-	2,466
Balance, December 31, 2016	$ 45,279	$136,298	$ 3,036	$ 11,839	$ 8,155	$ 700	$205,307
Accumulated depreciations							
Balance, January 1, 2016	$ -	$ 6,691	$ 2,113	$ 5,137	$ 7,088	$ 290	$ 21,319
Depreciation expenses	-	3,760	269	2,173	778	350	7,330
Balance, December 31, 2016	$ -	$ 10,451	$ 2,382	$ 7,310	$ 7,866	$ 640	$ 28,649
Net, December 31, 2016	$ 45,279	$125,847	$ 654	$ 4,529	$ 289	$ 60	$176,658

The depreciation expenses were provided under straight-line basis over the useful years:

Building	8~50 years
R&D equipment	3~6 years
Furniture & fixture	1~5 years
Other equipment	1~2 years
Leasehold improvement	2 years

For the property, plant and equipment pledged to secure the loan, please see Note 28.

14. Intangible assets

	Computer software	Technology license	Total
Cost			
Balance, January 1, 2015	$ 22,774	$ 27,123	$ 49,897
Addition	1,487	-	1,487
Balance, December 31, 2015	$ 24,261	$ 27,123	$ 51,384
Accumulated amortization			
Balance, January 1, 2015	($ 21,750)	($ 1,658)	($ 23,408)
Amortization expenses	(723)	(1,808)	(2,531)
Balance, December 31, 2015	($ 22,473)	($ 3,466)	($ 25,939)
Net, December 31, 2015	$ 1,788	$ 23,657	$ 25,445

(Continued)

(Brought forward)

	Computer software	Technology license	Total
Cost			
Balance, January 1, 2016	$ 24,261	$ 27,123	$ 51,384
Addition	865	1,722	2,587
Balance, December 31, 2016	$ 25,126	$ 28,845	$ 53,971
Accumulated amortization			
Balance, January 1, 2016	($ 22,473)	($ 3,466)	($ 25,939)
Amortization expenses	(984)	(2,287)	(3,271)
Balance, December 31, 2016	($ 23,457)	($ 5,753)	($ 29,210)
Net, December 31, 2016	$ 1,669	$ 23,092	$ 24,761

The amortization expenses were provided under straight-line basis over the useful years:

Computer software	1~5 years
Technology license	3~15 years

15. Other current assets

	December 31, 2016	December 31, 2015
Prepayment	$ 3,661	$ 2,035
Receivable and refundable tax	2,694	1,700
Other receivables	449	706
Others	154	184
	$ 6,958	$ 4,625

16. Loans

(1) Short-term loan

	December 31, 2016	December 31, 2015
Secured loan		
Bank loan	$ -	$ 30,000

The interest rate of secured bank loan was 1.60% on December 31, 2015. (For the details about collateral, please see Note 28.)

17. Payable accounts

	December 31, 2016	December 31, 2015
Payable accounts		
Incurred for business	$ 65,097	$ 56,494

The credit period applicable to the Company's purchase of goods was OA 30~60 days. The Company had defined the financial risk management policy to ensure that all payable accounts are repaid within the credit period agreed previously.

18. Other liabilities

	December 31, 2016	December 31, 2015
Current		
Other payables		
Payable bonus and salary	$ 19,753	$ 18,308
Payable employee bonus	4542	9,460
Payable remuneration to	1,514	3,153

directors/supervisors		
Payable labor service fees	3,389	3,251
Payable loss on scrapping and slow-moving of wafer	1,905	2,226
Payable trade promotion fees	1,144	1,373
Other payable expenses	15,122	13,669
	$ 47,369	$ 51,440

Other liabilities		
Advance receipts	$ 1,411	$ 2,026
Temporary receipts	727	-
Receipts under custody	305	294
	$ 2,443	$ 2,320

19. Termination benefit plan

(1) Defined contribution plan

The Company applies the pension system under the “Labor Pension Act”, which refers to the defined contribution plan managed by the Government. The pension fund equivalent to 6% of each employee’s monthly salary will be contributed to the exclusive personal account maintained at Bureau of Labor Insurance on a monthly basis.

(2) Defined benefit plan

The Company applies the pension system under the "Labor Standard Law" which refers to the defined benefit pension plan managed by the Government. The employee pension was paid according to the employee's seniority and average salary of the six months prior to his/her retirement as approved. The Company contributes 2% of the total salaries of the employees and have the same deposited into the special pension fund account maintained at Bank of Taiwan via the Employee Pension Fund Reserve Supervisory Committee in the name of the Committee, on a monthly basis. If the balance in said account is estimated to be insufficient for the payment of pension to workers who meet the retirement conditions in next year, the price difference shall be allocated in full by the end of March of the next year. The special pension fund account is managed by Bureau of Labor Funds, Ministry of Labor on a commission basis. The Company has no right to affect the investment management strategies.

The defined benefit plan amounts included into the individual balance sheet are listed as following:

	December 31, 2016	December 31, 2015
Present value of defined benefit obligation	$ 15,627	$ 13,966
Fair value of assets under the Plan	(10,736)	(10,237)
Net defined benefit liabilities	$ 4,891	$ 3,729

Changes in net defined benefit liabilities:

	Present value of defined benefit obligation	Fair value of assets under the Plan	Net defined benefit liabilities Benefit liabilities
Balance, January 1, 2015	$ 12,121	($ 9,328)	$ 2,793
Interests expenses (revenue)	227	(179)	48
Stated into income	227	(179)	48
Re-measurement			
Return on assets under the Plan (exclusive of the amount included into net interest)	-	(69)	(69)
Actuarial losses - changes in hypothesis about demographics	399	-	399
Actuarial losses — changes in hypothesis about finance	562	-	562
Actuarial losses - experience adjustment	657	-	657
Stated into other comprehensive income	1,618	(69)	1,549
Contributed by employer	-	(661)	(661)
Balance, December 31, 2015	13,966	(10,237)	3,729
Interests expenses (revenue)	209	(157)	52
Stated into income	209	(157)	52

Re-measurement			
Return on assets under the Plan (exclusive of the amount included into net interest)	-	83	83
Actuarial losses - changes in hypothesis about demographics	699	-	699

(Continued)
(Brought forward)

	Present value of defined benefit obligation	Fair value of assets under the Plan	Net defined benefit liabilities Benefit liabilities
Actuarial losses — changes in hypothesis about finance	$ 401	$ -	$ 401
Actuarial losses - experience adjustment	352	-	352
Stated into other comprehensive income	1,452	83	1,535
Contributed by employer	-	(425)	(425)
Balance, December 31, 2016	$ 15,627	($ 10,736)	$ 4,891

The Company is exposed to the following risk due to the pension system under "Labor Standard Law":

1. Investment risk: The Bureau of Labor Funds, Ministry of Labor invests the labor pension fund, via proprietary trading and discretionary investment service, in domestic (foreign) equity securities and bond securities and bank deposits, provided that the amount allocated from the Company's assets under the Plan shall be no less than the income calculated at the interest rate applicable to the local bank's two-year time deposits.
2. Interest rate risk: The declination of interest rate on government bonds will result in increase in the present value of defined benefit obligation,

but also increase in the return on the obligation investment of assets under the Plan relatively. They both will offset against the effect of net defined benefit liabilities in part.

3. Salary risk: The present value of defined benefit obligation is calculated based on the future salary of the members under the Plan. Therefore, the increase in salary of the members under the Plan will result in increase in the present value of defined benefit obligation.

The present value of defined benefit obligation is actuated by a qualified actuary. The important hypotheses applied on the date of measurement are stated as follows:

	December 31, 2016	December 31, 2015
Discount rate	1.25%	1.50%
Expected rate of increase in salary	3.00%	3.00%

If the important actuation hypotheses are changed reasonably, while the other hypotheses remain unchanged, the increase (decrease) in the present value of defined benefit obligation is stated as following:

	December 31, 2016	December 31, 2015
Discount rate		
Increase by 0.25%	($ 421)	($ 385)
Decrease by 0.25%	$ 437	$ 401
Expected rate of increase in salary		
Increase by 0.25%	$ 423	$ 389
Decrease by 0.25%	($ 409)	($ 376)

Given that the hypotheses might be related to each other, it is not likely that one single hypothesis would vary independently, said analysis of sensitivity might be unable to reflect the actual changes in the present value of defined benefit obligation.

	December 31, 2016	December 31, 2015
Amount expected to be contributed within one year	$ 448	$ 408
Average maturity of defined benefit obligation	11 years	11.3 years

20. <u>Equity</u>

(1) Capital stock

1. Common stock

	December 31, 2016	December 31, 2015
Authorized quantity (thousand shares)	60,000	60,000
Authorized capital stock	$ 600,000	$ 600,000
Quantity of issued and paid-up shares (thousand shares)	39,300	39,300
Issued capital stock	$ 392,999	$ 392,999

The par value of issued common stock is NT$10 per share. Each share is entitled to one voting right and right to collect stock dividend.

The capital stock retained for issuance of employee stock options in the authorized capital stock totaled 5,000 thousand shares.

The directors' meeting of the Company resolved on December 23, 2014 that the 5,000 thousand new shares issued before the Company's initial listing on OTC market at par value of NT$10 per share should be issued in excess of par value, namely, NT$15, per share. The paid-in capital after the capital increase was NT$395,309 thousand. Said motion for capital increase has been effective upon receipt of the approval letter under Cheng-Kuei-Shen-Tzu No. 1030035099 dated Dec. 31, 2014 from TPEx, and the directors' meeting resolved that the record date thereof should be January 22, 2015 and the registration of changes was completed on January 30, 2015.

On November 3, 2015, the directors' meeting resolved to cancel the treasury stock totaling 231 thousand shares and to set November 16, 2015 as the record date of capital decrease. The paid-in capital stock upon the capital decrease was NT$392,999 thousand, and the registration of changes was completed on November 30, 2015.

The information about employee stock options given by the Company due to transfer of treasury stocks and capital increases in cash in 2016 and 2015 is stated as follows:

Employee stock options	2016 Unit	2016 Weighted average Exercise price (NT$)	2015 Unit	2015 Weighted average Exercise price (NT$)
Outstanding, beginning	-	$ -	-	$ -
Given this year	964	12.8	750	15.0
Waived this year	-	-	(60)	15.0
Executed this year	(964)	12.8	(690)	15.0
Outstanding, ending	-		-	
Executable at the end of the year	-		-	
Weighted average fair value of stock options granted this year (NT$)	$ 6.46		$ 0.29	

The remuneration costs recognized based on the employee stock options given by the Company due to transfer of treasury stocks and capital increases in cash in 2016 and 2015 were NT$6,227 thousand and NT$217 thousand, respectively. The treasury stock was transferred to employees in April 2016.

(2) Capital surplus

	December 31, 2016	December 31, 2015
To cover loss, distribute cash dividend or allocate capital stock(1)		
Stock issued in excess of par value	$ 37,304	$ 37,304
Treasury stock	7,675	1,312
Price difference between the proceeds from acquisition of subsidiaries' equity and book value of the equity	1	1
Not used for any other purposes		
Employee stock options	1,722	1,722
	$ 46,702	$ 40,339

1. Such capital surplus may be used to cover losses or allocate cash dividend or be transferred to capital stock when the Company suffers no loss, provided that such capital surplus transferred to capital stock shall be within a certain ratio of the paid-in capital stock per year.

(3) Retained earnings and dividend policy

According to the amendments to Company Law in May 2015, the stock dividends and bonuses shall be allocated to shareholders, while employees are excluded from the subjects to whom earnings should be allocated. The Company has resolved to pass the earnings allocation policy under the amended Articles of Incorporation at the general shareholders' meeting on June 7, 2016, and also defined the policy for allocation of remuneration to employees and directors/supervisors in the Articles of Incorporation.

According to the earnings allocation policy under the amended Articles of Incorporation, if the Company has a profit at the year's final accounting, it shall be allocated in the following order:

1. To pay tax;
2. To offset against loss;
3. To allocate 10% as the legal reserve, unless the accumulated legal reserve amounts to the Company's paid-in capital;
4. To set aside or reverse the special reserve pursuant to the Securities and Exchange Act;
5. The balance refers to the shareholders' bonus, which will be allocated on a pro rata basis subject to the total shareholdings or retained upon resolution of the shareholders' meeting.

For the policies for allocation of remuneration to employees and directors/supervisors defined in the Articles of Incorporation before and after the amendments, please see Note 22(5), Total Employee Benefit Expenses.

According to the Company's Articles of Incorporation, under the environment in which the competition becomes intensive increasingly, the Company adopts the dividend equalization policy in order to pursue sustainable operation, by taking the long-term financial planning and funding need into consideration. Notwithstanding, the shareholders' meeting may adjust the policy subject to the earnings gained in the year. The payment ratio of cash dividend shall be no less than 10% of the total stock dividend allocated from earnings for then year.

The Company shall contribute the legal reserve until it is equivalent to the paid-in capital. The legal reserve may be used to cover loss. When the Company suffers no loss, cash may be allocated from the legal reserve, provided that the new shares or cash allocated shall be no more than 25% of the paid-in capital.

The Company provided and reversed special reserve pursuant to the FSC’s official letter under Ching-Kuan-Cheng-Fa-Tzu No. 1010012865, FSC's official letter under Ching-Kuan-Cheng-Fa-Tzu No. 1010047490 and "Q&A for Provision of Special Reserve upon Adoption of IFRSs".

When unallocated earnings are allocated, any shareholders other than those residing within the territories of the R.O.C. may receive the shareholders’ deductible tax at the tax credit rate prevailing on the date of allocation of stock dividend.

The Company held the general shareholders' meeting on June 7, 2016 and June 9, 2015, resolving to pass the motion for allocation of earnings 2015 and 2014:

	Motion for allocation of earnings		EPS (NT$)	
	2015	2014	2015	2014
Legal reserve	$ 3,981	$ 5,736	$ -	$ -
Cash dividend	30,669	38,336	0.80	1.00

The motion for allocation of earnings 2016 resolved by the directors' meeting on February 14, 2017:

	Motion for allocation of earnings	EPS (NT$)
Legal reserve	$ 2,598	$ -
Cash dividend	19,650	0.50

The motion for allocation of earnings 2016 is still pending resolution by the general shareholders' meeting to be called on May 23, 2017.

(4) Treasury stock

Cause of collection	Transfer shares to employees

	(Thousand shares)
Quantity of shares, January 1, 2015	1,195
Decrease this year	(231)
Quantity of shares, December 31, 2015	964
Quantity of shares, January 1, 2016	964
Decrease this year	(964)
Quantity of shares, December 31, 2016	-

According to the Securities and Exchange Act, the treasury stock held by the Company shall not be pledged, or entitled to the right to allocate stock dividends and vote.

21. Revenue

	2016	2015
Revenue from sale of goods	$600,775	$570,028

22. Net profit of continued operations

Net profit of continued operations consists of the following elements:

(1) Other revenue

	2016	2015
Interest revenue	$ 2,228	$ 2,934
Others	2,264	6,554
	$ 4,492	$ 9,488

(2) Other gains and losses

	2016	2015
Net foreign currency exchange income	($ 5,372)	$ 1,912
Loss from financial liabilities held for trading	(239)	-
Gain from disposition of investment	1,000	-
Loss from impairment on financial assets	(1,046)	(235)
Others	319	(1,439)
	($ 5,338)	$ 238

(3) Financial cost

	2016	2015
Interest on bank loans	$ 6	$ 212

(4) Depreciation and amortization

	2016	2015
Property, plant and equipment	$ 7,330	$ 6,809
Intangible assets	3,271	2,531
Total	$ 10,601	$ 9,340
Depreciation expenses summarized by function		
Operating cost	$ 629	$ 724
Operating expenses	6,701	6,085
	$ 7,330	$ 6,809
Amortization expenses summarized by function		
Administrative expenses	$ 898	$ 560
R&D expenditures	2,373	1,971
	$ 3,271	$ 2,531

(5) Employee benefit expenses

	2016	2015
Short-term employee benefits	$ 98,483	$ 98,813
Termination benefit (Note 19)		
Defined contribution plan	4,226	3,868
Defined benefit plan	-	48
	4,226	3,916
Share-based payment (Note 20)		
Settlement of equity	6,227	217
Total employee benefit expenses	$108,936	$102,946
Summarized by function		
Operating cost	$ -	$ -
Operating expenses	108,936	102,946
	$108,936	$102,946

1. Remuneration to employees and directors/supervisors in 2016 and 2015

According to the Company Law amended in May 2015 and the amended Articles of Incorporation amended upon resolution by the shareholders' meeting in June 2016, the Company allocated 12%~15% and 3%~5% of the income before tax before deduction of remuneration to employees and directors/supervisors as the remuneration to employees and directors/supervisors. The remuneration to employees and directors/supervisors in 2016 and 2015 was allocated subject to the following resolution made by the directors' meetings on February 15, 2017 and March 15, 2016:

Estimated percentage

	2016	2015
Remuneration to employees	12.5%	12.5%
Remuneration to directors/supervisors	4.2%	4.2%

Amount

	2016		2015	
	Cash	Stock dividend	Cash	Stock dividend
Remuneration to employees	$ 4,542	$ -	$ 7,568	$ -
Remuneration to directors/supervisors	1,514	-	2,523	-

In the case of variation in the amount on the date of approval and release of the individual financial statements, the variation shall be treated as the change in accounting estimation and stated in next year.

The remuneration to employees and directors/supervisors allocated upon resolution of the directors' meeting on March 15, 2016, and that recognized in the individual financial statements are stated as follows:

	2015	
	Remuneration to employees	Remuneration to directors/supervisors
Amount to be allocated upon resolution by the directors' meeting	$ 7,568	$ 2,523
Amounts recognized in the annual financial statements	$ 9,460	$ 3,153

Said variance was adjusted as income 2016.

For information about remuneration to employees and directors/supervisors resolved by the Company's directors' meeting in 2017 and 2016, please visit the "MOPS" website of the TWSE.

2. Employee bonus and remuneration to directors/supervisors in 2014

The Company held the general shareholders' meeting on June 9, 2015, resolving to pass the motion for allocation of employee bonus and remuneration to directors/supervisors in 2014:

	2014	
	Cash dividend	Stock dividend
Employee bonus	$ 7,774	$ -
Remuneration to directors/supervisors	2,581	-

The employee bonus and the remuneration to directors/supervisors allocated upon resolution of the general shareholders' meeting on June 9, 2015, and that recognized in the individual financial statements are stated as follows:

	2014	
	Employee bonus	Remuneration to directors/supervisors
Amount to be allocated upon resolution by the shareholders' meeting	$ 7,774	$ 2,581
Amounts recognized in the annual financial statements	$ 7,910	$ 2,637

Said variance was adjusted as income 2015.

For the information about employee bonus and remuneration to directors/supervisors resolved by the Company's shareholders' meeting 2015, please visit the "MOPS" website of the TWSE.

23. Income tax of continued operations

(1) The income tax expenses stated into income consist of the following elements:

	2016	2015
Current income tax		
Generated this year	$ 4,328	$ 10,001
Levied on undistributed earnings	516	1,329
Adjustment in previous years	(543)	(683)
	4,301	10,647

Deferred income tax		
Generated this year	-	-
Income tax expenses stated into income	$ 4,301	$ 10,647

The accounting income and income tax expenses are adjusted as following:

	2016	2015
Net profit before tax of continued operations	$ 30,280	$ 50,456
Income tax for which the net profit before tax is calculated at statutory tax rate	$ 5,148	$ 8,578
Levied on undistributed earnings	516	1,329
Unrecognized deductible temporary difference	(820)	1,423
Current adjustment of current income tax expenses of previous years	(543)	(683)
Income tax expenses stated into income	$ 4,301	$ 10,647

The Company applies the tax rate of 17%.

Because the motion for allocation of earnings has not yet been resolved by the shareholders' meeting 2017, it is impossible to determine the potential income tax effect on 10% levied on undistributed earnings for 2016.

(2) Current income tax liabilities

	December 31, 2016	December 31, 2015
Current income tax liabilities		
Payable income tax	$ 3,715	$ 10,723

(3) Items not recognized as deferred income tax assets

	December 31, 2016	December 31, 2015
Deductible temporary difference	$ 6,901	$ 7,816

(4) Information about two-in-one tax policy:

	December 31, 2016	December 31, 2015
Undistributed earnings After 1998	$ 54,813	$ 65,019
Balance of shareholders' deductible tax account	$ 9,372	$ 3,157

	2016 (Projected)	2015
Tax credit ratio applicable to allocation of earnings	16.63%	16.02%

According to the Income Tax Law, when the Company allocates the earnings after 1998 (inclusive of 1998), the native shareholders may calculate the shareholders' deductible tax based on the tax credit ratio prevailing on the date of allocation of stock dividend. Because the deductible tax allocable to shareholders shall be based on the balance of shareholders' deductible tax account on the date of allocation of stock dividend, the Company estimates that the tax credit ratio for allocation of earnings 2016 might be different from the tax credit ratio applicable to the actual allocation of earnings to shareholders.

The Company had no undistributed earnings before 1997 (inclusive).

(5) Authorization of income tax

The income tax returns of the Company until 2014 have been authorized by the tax collection authority.

24. EPS

The earnings and number of the weighted average shares of outstanding common stock used to calculate the EPS are stated as following:

Net profit this year

	2016	2015
Net profit this year	$ 25,979	$ 39,809
Net profit used to calculate basic EPS	25,979	39,809
Net profit used to calculate diluted EPS	$ 25,979	$ 39,809

Quantity of shares — Unit: Thousand shares

	2016	2015
Quantity of the weighted average shares of common stock used to calculate the EPS	39,059	38,336
Effect of dilutive potential common stock:		
Remuneration to employees	436	750
Quantity of the weighted average shares of common stock used to calculate the EPS	39,495	39,086

If the Company may choose to grant remuneration to employees in the form of stock or in cash, when calculating the diluted EPS, it shall hypothesize that remuneration to employees will be granted in the form of stock, and include the weighted average quantity of outstanding shares when the potential common stock is dilutive, so as to calculate the EPS. When calculating diluted EPS before resolving the quantity of shares granted as remuneration to employees in next year, the Company should also continue to consider the dilutive effect of the potential common stock.

25. Capital risk management

The Company proceeded with capital management to ensure that it may maximize shareholders’ return by optimizing the balance of debt and equity, on the premises that its operation may be continued.

The Company's capital structure consists of its net obligation (i.e. the loan less cash and cash equivalents) and equity attributable to the owners of parent (namely, capital stock, capital surplus, retained earnings and other equities).

The Company's management would check the Group's capital structure from time to time, by taking into consideration various capital costs and related risks. The Company balanced its entire capital structure by payment of stock dividend, issuance of new shares, repurchase of shares, issuance of new obligation or repayment of old obligation according to the management’s suggestion.

The Company did not need to comply with the other external capital requirements.

26. Financial instruments

(1) Information about fair value - Financial instruments not measured at fair value

There was no material difference between the book value of financial assets and liabilities not measured at fair value, and the fair value thereof.

(2) Information about fair value - Financial instruments measured at fair value on a repeated basis

1. Tiers of fair value

December 31, 2016

	Tier 1	Tier 2	Tier 3	Total
Financial liabilities at fair value through profit or loss				
Derivative instruments	$ -	$ 461	$ -	$ 461

December 31, 2015

	Tier 1	Tier 2	Tier 3	Total
Financial assets in available-for-sale				
Domestic unlisted (non-OTC) securities	$ -	$ -	$ 1,046	$ 1,046

In 2016 and 2015, no transfer between Tier 1 and Tier 2 of fair value took place.

2. Adjustment of financial assets measured at fair value of Tier 3

	Investment in equity instruments in available-for-sale	
	Investment in equity instruments	
Financial assets	2016	2015
Balance, beginning	$ 1,046	$ 1,281
Stated into income		
—Realized	(1,046)	-
—Unrealized	-	(235)
Balance, ending	$ -	$ 1,046

3. Valuation technology and input value for measurement at fair value of Tier 2

Types of financial	Valuation technology and input value

instruments	
Derivative instrument — Forward Foreign Exchange Contracts	Discounted cash flow method: To estimate the future cash flow based on the observable forward foreign exchange rate at the end of year and foreign exchange rate defined in the contract, and to discount the same based on the discount rate which may reflect various trading counterparts' credit risk.

4. Valuation technology and input value for measurement at fair value of Tier 3

   Domestic/overseas unlisted (non-OTC) equity investment applies the market-based approaches. Namely, the value of evaluated object is estimated by appropriate multiples based on the trading price of comparable object and by taking into consideration of the difference between the evaluated object and comparable object. The common valuation under the market-based approach is based on the price of stock with active market of the stock of the enterprise engaged in the same or similar business lines to decide the relevant multiples and evaluate.

(3) Types of financial instruments

	December 31, 2016	December 31, 2015
Financial assets		
Loans and receivable accounts (Note 1)	$363,839	$394,853
Financial assets in available-for-sale	-	1,046
Financial liabilities		
Measured at amortized cost (Note 2)	116,850	142,409

Note 1: The balance includes the loans and accounts receivable measured at cost after amortization including cash and cash equivalents, bond instruments without an active market, receivable notes, receivable accounts and refundable deposits.

Note 2: The balance includes the financial liabilities measured at cost after amortization including short-term borrowing, payable accounts, other payable accounts, and guarantee deposit received.

(4) Purpose and policy of financial risk management

The Company's main financial instruments include equity and bond investment, receivable accounts, payable accounts and loans. The Company's financial management department is dedicated to providing various business units with services, coordinating the operation in domestic and international financial markets, and analyzing risk per the degree and extension of risk and managing the financial risk over the Company's operation. The risks include market risk (including foreign exchange risk, interest rate risk and other pricing risks), credit risk and liquidity risk.

The Company hedged exposure via the financial derivatives to mitigate the effect produced by the risk. The utilization of financial derivatives is governed by the policy approved by the Company's Board. The policy refers to the written principles for the utilization of foreign exchange risk, interest rate risk, credit risk, financial derivatives and non-financial derivatives and investment of residual working capital. Internal auditors shall re-audit compliance with the policy and exposure limit. The Company never engaged in transactions of financial instruments (including financial derivatives) for the purpose of speculation.

1. Market risk

The main market risk borne by the Company's operating activities means the risk over changes in foreign exchange rate of foreign currency (see the following (1)) and risk over changes in interest rate (see the following (2)). The foreign currency exchange rate risk borne by the Company to manage forward contract.

The Company's exposure related to financial instrument market risk and the management and evaluation of such exposure remain unchanged.

(1) Foreign exchange rate risk

The Company primarily engaged in sale and purchase denominated in foreign currency and thereby exposed it to the risk over changes of foreign exchange rate. About 91% of the Company's turnover was denominated in a currency other than the functional currency, and about 76% of the cost was denominated in a currency other than the functional currency. The Company's exposure to the risk over foreign exchange rate was managed in the form of forward contract, insofar as it was permitted by the relevant policy. Meanwhile, the Company also had some bank deposits denominated in foreign currency to collect interest revenue. Until December 31, 2016, about 27% of the cash and cash equivalents were denominated in a currency other than the functional currency.

For the book value of the Company's monetary assets and monetary liabilities denominated in a currency other than the functional currency on the balance sheet date, please refer to Note 30.

Sensitivity analysis

The Company was primarily affected by the fluctuation in USD and RMB.

The following table states the Company’s sensitivity analysis in the case of increase/decrease in foreign exchange rate of NTD (functional currency) vs. USD/RMB by 1%. 1% means the sensitivity ratio which is applied when reporting to the management the foreign interest rate risk within the Company, also representing the management’s evaluation about reasonable potential changes in foreign exchange rate of foreign currency. The sensitivity analysis only included the outstanding monetary items denominated in the foreign currency, and adjusted the conversion at the end of year by changes in the foreign exchange rate by 1%. The following table states that the revaluation of NTD against USD/RMB by 1% will result in decrease or increase in net income before tax. Notwithstanding, in consideration of the devaluation of NTD against USD/RMB by 1%, the effect on net income before tax will be the equivalent amount positively.

	Effect of USD		Effect of RMB	
	2016	2015	2016	2015
Income	($ 606)	($ 1,347)	($ 541)	($ 454)
Equity	(606)	(1,347)	(541)	(454)

(2) Interest rate risk

The entities in the Company borrowed funds at a floating interest rate at the same time and, therefore, exposed them to the interest rate risk. The Company would evaluate the hedging activities periodically to keep them consistent with the view about interest rate and existing risk preference and to ensure the adoption of hedging strategies which met the cost benefit best.

The book value of the Company's monetary assets and monetary liabilities exposed to the interest rate risk on the balance sheet date is stated as following:

	December 31, 2016	December 31, 2015
Fair value interest rate risk		
- Financial assets	$234,059	$291,247
Cash flow interest rate risk		
- Financial assets	26,087	21,470
- Financial liabilities	-	30,000

Sensitivity analysis

The following sensitivity analysis is decided based on the exposure of interest rate risk of the non-derivative instruments on the balance sheet date. The analysis hypothesized that the floating interest rate liabilities outstanding on the balance sheet date were outstanding throughout the reporting period. The variance rate applied by the Company’s internal staff when reporting the interest rate to the management was based on the interest rate increased or decreased by 100, which also represents the management’s evaluation on the reasonable variance of the interest rate.

If the interest rate increases or decreases by 100 and the other variables remain unchanged, the consolidated companies’ net profits in 2016 and 2015 would decrease/increase by NT$0 thousand and NT$300 thousand, primarily resulting from the Company's loan at the floating interest rate. The Company's loans at the floating interest rate were repaid in 2016.

2. Credit risk

The credit risk refers to the financial loss risk derived from the failure of any trading counterpart to perform the contractual obligation. Until the balance sheet date, the maximum credit risk which the Company might be exposed to because of the trading counterpart's failure to perform the contractual obligation has primarily resulted from the book value of financial assets stated in the individual balance sheet.

In order to mitigate the credit risk, the Company's management designated the dedicated team to decide the facility to be granted, approve facility and handle other controlling procedures, in order to ensure that appropriate measures have been taken to collect overdue receivables. Meanwhile, the Company would check the collectible amount of receivable accounts one by one on the balance sheet date to ensure that appropriate impairment loss has been provided for the receivable accounts which could not be collected. Given this, the Company's management considered that its credit risk should have been mitigated significantly.

Meanwhile, the trading counterpart of working capital and financial derivatives was the bank which was granted high credit rating by the international credit rating organization. Therefore, the credit risk should be considered minor.

The Company's credit risk by territory was primarily centralized in Hong Kong and Mainland China, which has accounted for 44% and 30%, and 46% and 50% of the total receivable accounts until December 31, 2016 and 2015.

The Company's risk credit was primarily centralized in its top 5 customers. The receivable accounts from said customers have been accounted for 86% and 74% of the total receivable accounts until December 31, 2016 and 2015.

3. Liquidity risk

The Company managed and maintained sufficient cash and cash equivalents to cover the Company's operation and mitigate the effect produced by fluctuation in cash flows. The Company's management supervised the status of bank facility to ensure compliance with the terms and conditions in the loan contract.

For the Company, the bank loan was a very important source of liquidity. For the facility that has not yet been drawn down by the consolidated companies before December 31, 2016 and 2015, please see the following Note (2), facility.

(1) Statement of liquidity and interest rate risk of non-derivative financial liabilities

The analysis on residual duration of contract for non-derivative financial liabilities was prepared in accordance with the earliest date of repayment which was requested from the Company and non-discounted cash flows for financial liabilities (including the principal and estimated interest). Therefore, the bank loans which the Company could be requested to repay immediately are listed in the earliest period identified in the following table, without needing to take the opportunity of the bank's immediate exercise of the right into consideration. The analysis on expiry of other non-derivative financial liabilities was prepared based on the agreed date of repayment.

December 31, 2016

	Payable on demand or less than one month	1～3months	3Months～1 year	1～5 years	5 years or more
Non-derivative financial liabilities					
Liabilities without interest	$ 37,677	$ 33,533	$ -	$ 2,019	$ -

December 31, 2015

	Payable on demand or less than one month	1～3months	3Months～1 year	1～5 years	5 years or more
Non-derivative financial liabilities					
Liabilities without	$ 41,067	$ 22,733	$ -	$ 2,056	$ -

interest					
Instruments at fixed interest rate	30,000	-	-	-	-
	$ 71,067	$ 22,733	$ -	$ 2,056	$ -

(2) Facility

	December 31, 2016	December 31, 2015
Non-secured bank loan facility		
- Amount drew down	$ -	$ -
- Amount not yet drawn down	74,675	32,825
	$74,675	$32,825
Secured bank loan facility		
- Amount drew down	$ -	$ 30,000
- Amount not yet drawn down	112,875	149,065
	$112,875	$179,065

27. Transactions with related parties

In addition to the transactions disclosed in the other notes, the transactions between the Company and related parties are stated as follows:

(1) Operating revenue

Type of related party	2016	2015
Subsidiary held indirectly	$ 2,309	$ 3,216

The trading price of the Company's transactions with related parties was agreed by both parties. Generally, the collection period was OA 30 days.

(2) Receivable accounts - related party

Type of related party	December 31, 2016	December 31, 2015
Subsidiary held indirectly	$ -	$ 120

Outstanding accounts receivable-related parties were not secured. The receivable accounts - related parties did not provide allowance for bad debt in 2015.

(3) Other receivable accounts - related party

Title	Type of related party	December 31, 2016	December 31, 2015
Other current assets	Subsidiary held indirectly	$ -	$ 60

(4) Other payable accounts - related party

Title	Type of related party	December 31, 2016	December 31, 2015
Other payables	Subsidiary held indirectly	$ 1,144	$ 1,373

(5) For the after-sale contract signed with subsidiaries, please see Note 29.

Title	Type of related party	December 31, 2016	December 31, 2015
Selling expenses	Subsidiary held indirectly	$14,803	$16,149

(6) Remuneration to the management

	2016	2015
Short-term employee benefits	$ 16,013	$ 12,655
Termination benefit	509	524
	$16,522	$13,179

The remuneration to directors and the other management was decided by the Remuneration Committee subject to personal performance and market trend.

28. Pledged assets

The following assets were furnished as the collateral to secure the facility:

	December 31, 2016	December 31, 2015
Own land and buildings, net	$164,076	$174,886

29. Major contingent liabilities and unrecognized contract commitments

In addition to the liabilities and commitments referred to in the other notes, the Company's major commitments or contingent liabilities on the balance sheet date are stated as following:

The Company has signed the contract with the subsidiary indirectly held by the Company, MEGAWIN TECHNOLOGY SHENZHEN COMPANY LIMITED, to commission it to help the Company provide after-sale services to the customers in the territories of Shenzhen and Mainland China. The Company shall pay it the after-sale service fees at specific percentage, stated as selling expenses. The contract shall be effective for three years from January 2013. The Company has renewed the contract with the subsidiary in December 2015. The new contract shall be effective for three years from January 2016.

30. Information about foreign-currency-denominated assets and liabilities that have significant influence

The following is expressed by summarization of the foreign currencies other than functional currencies applied by the Company. The foreign exchange rate as disclosed refers to the foreign exchange rate applied to conversion of the foreign currency to the functional currency. Foreign-currency-denominated assets and liabilities that have significant influence

December 31, 2016

	Foreign currency	Foreign exchange rate	Book value
Foreign currency assets			
Monetary items			
USD	$ 3,415	32.25	$ 110,127
RMB	11,717	4.62	54,097
HKD	994	4.16	4,135
			$168,359
Foreign currency liabilities			
Monetary items			
USD	1,540	32.14	$ 49,504
HKD	1,139	4.13	4,708
			$ 54,212

December 31, 2015

	Foreign currency	Foreign exchange rate	Book value
Foreign currency assets			
Monetary items			
USD	$ 5,365	32.82	$ 176,095
RMB	9,093	4.99	45,417
HKD	841	4.24	3,562
			$ 225,074
Foreign currency liabilities			
Monetary items			
USD	1,268	32.63	$ 41,381

HKD	1,113	4.17	4,641
			$ 46,022

Foreign-currency-denominated exchange income (unrealized) that has significant influence:

	2016		2015	
Foreign currency	Foreign exchange rate	Net exchange income	Foreign exchange rate	Net exchange income
USD	32.26 (USD:NTD)	$ 860	32.82 (USD:NTD)	$ 1,112
HKD	4.16 （HKD:NTD）	63	4.23 （HKD:NTD）	(178)
RMB	4.83 (RMB:NTD)	(128)	5.00 (RMB:NTD)	(655)
		$ 795		$ 279

31. Noted disclosure

(1) Important transactions and (2) Information about investees:

1. Fund granted to others: N/A
2. Endorsement and guarantee made for others: N/A
3. Marketable securities-end (exclusive of those held by investment in subsidiaries): see Schedule 1.
4. Cumulative amount of the same marketable security purchased or sold reaching 300 million NTD or more than 20% of the paid-in capital: N/A.
5. Cumulative amount of the same marketable security purchased or sold reaching 300 million NTD or more than 20% of the paid-in capital: N/A.
6. Amount on disposal of real estate reaching 300 million NTD or more than 20% of the paid-in capital: N/A.
7. Purchase/sale amount of transactions with related parties reaching 100 million NTD or more than 20% of the paid-in capital: N/A.
8. Accounts receivable-related party reaching 100 million NTD or more than 20% of the paid-in capital: N/A.
9. Transactions of derivatives: See Note 7.
10. Information about investees: see Schedule 2.

(3) Information about investment in Mainland China:

1. Name of investee in Mainland China, principal business, paid-in capital, mode of investment, outward/inward remittance of fund, shareholding percentage, current income and recognized investment income, book value of investment, ending, investment income repatriated to Taiwan, and limit of investment in Mainland China: see Schedule 3.

2. Direct or indirect major transactions between the invested companies in the Mainland China and the Company, and the price, payment terms and unrealized income thereof: see Schedule 4.
   (1) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period.
   (2) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period.
   (3) The amount of property transactions and the amount of the resultant gains or losses.
   (4) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes.
   (5) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds.
   (6) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receiving of services.

MEGAWIN Technology Co., Ltd.

Marketable securities-end

December 31, 2016

Schedule 1

Unit:NT$ thousand, unless otherwise noted

Holder of securities	Type and Name	Affiliation with issuer	Account title	Ending				Remark
				Number of shares	Book value	Ratio of Shareholding	Fair value	
The Company	Government bond	N/A	Cash and cash equivalents	-	$ 50,000	Not applicable	$ 50,000	No guarantee or pledge was made.
	Government bond	N/A	Investments in Debt Instrument with No Active Market	-	21,400	Not applicable	21,400	Same as above
	GOALTOP TECHNOLOGY CORPORATION	N/A	Financial assets in available-for-sale - noncurrent	300	-	2.50%	-	Same as above

Note: For the information about investment in a subsidiary, please see Schedule 2 and Schedule 3.

MEGAWIN Technology Co., Ltd.

Information related to the investees, such as names and locations, etc.

January 1~December 31, 2016

Schedule 2

Unit: NTD and foreign currency thousand dollars/thousand shares

Investor	Investee	Address	Principle Business	Original investment cost		End			Investee Income in the current period	Investment income recognized in the current period	Remark
				End of the current period	End of the previous period	Quantity (thousand shares)	Percentage (%)	Book value			
The Company	Regent Pacific Management Ltd.	Mauritius	General investment	$ 30,824 (US$ 921)	$ 30,824 (US$ 921)	921	100	$ 17,929	$ 100	$ 100	Subsidiary
Regent Pacific Management Ltd.	MEGAWIN TECHNOLOGY H.K. COMPANY LIMITED	Hong Kong	IC design service, trading and general investment	12,238 (US$ 385)	12,238 (US$ 385)	3,129	100	14,499	231	231	Indirect subsidiary
MEGAWIN TECHNOLOGY H.K. COMPANY LIMITED	MEGAWIN TECHNOLOGY SHENZHEN COMPANY LIMITED	Mainland China	IC design service, trading and general investment	9,459 (US$ 300)	9,459 (US$ 300)	300	100	10,609 (HK$ 2,552)	415 (HK$ 100)	415 (HK$ 100)	Great-grandson subsidiary

Note: For the information about investees in Mainland China, please see Schedule 3.

MEGAWIN Technology Co., Ltd.

Information about investment in Mainland China

January 1~December 31, 2016

Schedule 3

Unit:NT$ thousand, unless otherwise noted

Name of investee in Mainland China Company name	Principle Business	Paid-in Capital	Mode of investment	Cumulative investments outward remitted from Taiwan at beginning	Investment Remittance or Regain during the fiscal Year		Amount accumulated, remitted from Taiwan for investment in Mainland China at the end of the current term	Investee Income in the current period	The Company's Direct or Indirect Investment Holding Ratio	Investment income recognized in the current period	Investment, ending Book value	Investment income repatriated to Taiwan in the current period	Remark
					Outward remitted	Repatriated							
MEGAWIN TECHNOLOGY SHENZHEN COMPANY LIMITED	IC design service, trading and general investment	$ 9,459 (US$ 300 thousand)	Note 1	$ 9,459 (US$ 300 thousand)	$ -	$ -	$ 9,459 (US$ 300 thousand	$ 415 (HK$ 100 thousand)	100%	$ 415 (HK$ 100 thousand) (Note 2)	$ 10,609 (HK$ 2,552 thousand)	$ -	—

Amount accumulated, remitted from Taiwan for investment in Mainland China at the end of the current term	Investment Amount Approved by Investment Commission of MOEAIC	Mainland China Investment Ceiling As Regulated by Investment Commission of MOEAIC
US$300 thousand (equivalent to NT$9,459 thousand)	US$300 thousand (equivalent to NT$9,459 thousand)	NT$319,069 thousand

Note 1: Invested through the company invested by Regent Pacific Management Limited in the third region, MEGAWIN TECHNOLOGY H.K. COMPANY LIMITED.

Note 2: The investment income recognized in the current period was recognized based on the financial statements audited by the parent company in Taiwan.

MEGAWIN Technology Co., Ltd.

Direct or indirect major transactions between the invested companies in the Mainland China and the Company, and the price, payment terms and unrealized income thereof, and related information

January 1~December 31, 2016

Schedule 4 Unit: NT$ thousand

Name of investee in Mainland China	Type of transaction	Amount	Percentage	Price	Trading conditions		Receivable (payable) notes/accounts		Unrealized profit/loss	Remark
					Payment term	Comparison with the general suppliers	Amount	Percentage		
MEGAWIN TECHNOLOGY SHENZHEN COMPANY LIMITED	Sales revenue	$ 2,309	-	As agreed	Subject to the general terms and conditions	—	$ -	-	$ -	—
	Selling expenses	14,803	42%	As agreed	Subject to the general terms and conditions	—	(1,144)	2%	-	—

Company name: MEGAWIN Technology Co., Ltd.

Chairman of Board: Wen, Kuo-Liang