# Nuvoton Technology Corporation

**Financial Statements for the**
**Years Ended December 31, 2019 and 2018 and**
**Independent Auditors' Report**

Deloitte.

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# INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Nuvoton Technology Corporation

## Opinion

We have audited the accompanying financial statements of Nuvoton Technology Corporation (the Company), which comprise the balance sheets as of December 31, 2019 and 2018, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

## Basis for Opinion

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

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2019. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Occurrence of Sales Revenues

There is a significant risk on revenue recognition, and customers' line of credit and delivery of products are highly correlated to recognition of sales revenue. We therefore considered that the occurrence of sales revenue from the twenty largest customers with changes in credit limits and temporary increase in credit limits in 2019 as a key audit matter for this year. Refer to Note 4 to the financial statements for the Company's revenue recognition policies.

Our audit procedures in response to the occurrence of sales revenue included understanding the design and the implementation of internal control of sales revenue and selecting samples of revenue items to verify that revenue transactions have indeed occurred.

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

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

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

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

**Auditors' Responsibilities for the Audit of the Financial Statements**

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

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

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the year ended December 31, 2019 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Shu-Lin Liu and Hung-Bin Yu.

Shu-Lin Liu          Hung-Bin Yu

Deloitte & Touche
Taipei, Taiwan
Republic of China

February 6, 2020

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

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

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

# NUVOTON TECHNOLOGY CORPORATION

**BALANCE SHEETS**
**DECEMBER 31, 2019 AND 2018**
**(In Thousands of New Taiwan Dollars)**

| | 2019 | | 2018 | |
|---|---|---|---|---|
| **ASSETS** | **Amount** | **%** | **Amount** | **%** |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Notes 4 and 6) | $ 4,451,201 | 41 | $ 960,293 | 16 |
| Financial assets at fair value through profit or loss - current (Notes 4 and 7) | 6,037 | - | 763 | - |
| Notes and accounts receivable, net (Notes 4 and 8) | 717,356 | 7 | 602,000 | 10 |
| Accounts receivable from related parties, net (Notes 4, 8 and 25) | 144,686 | 1 | 332,028 | 5 |
| Other receivables (Notes 6 and 25) | 288,980 | 3 | 28,016 | - |
| Inventories (Notes 4 and 9) | 1,600,433 | 15 | 1,557,510 | 26 |
| Other current assets (Note 13) | 133,420 | 1 | 162,333 | 3 |
| Total current assets | 7,342,113 | 68 | 3,642,943 | 60 |
| NON-CURRENT ASSETS | | | | |
| Financial assets at fair value through other comprehensive income - non-current (Notes 4 and 10) | 1,056,690 | 10 | 493,166 | 8 |
| Investments accounted for using equity method (Notes 4 and 11) | 1,102,658 | 10 | 1,009,874 | 17 |
| Property, plant and equipment (Notes 4 and 12) | 673,029 | 6 | 612,248 | 10 |
| Right-of-use assets (Notes 4 and 13) | 351,336 | 3 | - | - |
| Intangible assets (Notes 4 and 14) | 192,005 | 2 | 122,967 | 2 |
| Deferred tax assets (Notes 4 and 19) | 73,000 | - | 80,000 | 1 |
| Refundable deposits (Note 6) | 81,289 | 1 | 75,707 | 1 |
| Other non-current assets (Note 13) | - | - | 35,129 | 1 |
| Total non-current assets | 3,530,007 | 32 | 2,429,091 | 40 |
| TOTAL | $ 10,872,120 | 100 | $ 6,072,034 | 100 |
| **LIABILITIES AND EQUITY** | | | | |
| CURRENT LIABILITIES | | | | |
| Accounts payable | $ 1,128,398 | 10 | $ 888,249 | 15 |
| Other payables (Notes 16 and 25) | 1,028,249 | 9 | 917,252 | 15 |
| Current tax liabilities (Notes 4 and 19) | 68,556 | 1 | 83,748 | 1 |
| Lease liabilities - current (Notes 4 and 13) | 53,885 | - | - | - |
| Other current liabilities | 55,249 | 1 | 52,093 | 1 |
| Total current liabilities | 2,334,337 | 21 | 1,941,342 | 32 |
| NON-CURRENT LIABILITIES | | | | |
| Long-term borrowings (Note 15) | 500,000 | 5 | - | - |
| Products guarantee based on commitment (Note 4) | 101,891 | 1 | 101,891 | 1 |
| Lease liabilities - non-current (Notes 4 and 13) | 262,054 | 2 | - | - |
| Net defined benefit liabilities - non-current (Notes 4 and 17) | 266,795 | 3 | 292,862 | 5 |
| Other non-current liabilities | 15,012 | - | 1,573 | - |
| Total non-current liabilities | 1,145,752 | 11 | 396,326 | 6 |
| Total liabilities | 3,480,089 | 32 | 2,337,668 | 38 |
| EQUITY | | | | |
| Share capital (Note 18) | 2,875,544 | 26 | 2,075,544 | 34 |
| Capital surplus (Note 18) | 2,906,976 | 27 | 63,498 | 1 |
| Retained earnings (Note 18) | | | | |
| Legal reserve | 541,722 | 5 | 470,659 | 8 |
| Unappropriated earnings | 917,229 | 8 | 955,346 | 16 |
| Exchange differences on translation of foreign financial statements (Notes 4 and 18) | (18,984) | - | (10,535) | - |
| Unrealized gains (losses) on financial assets at fair value through other comprehensive income (Notes 4 and 18) | 169,544 | 2 | 179,854 | 3 |
| Total equity | 7,392,031 | 68 | 3,734,366 | 62 |
| TOTAL | $ 10,872,120 | 100 | $ 6,072,034 | 100 |

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

# NUVOTON TECHNOLOGY CORPORATION

## STATEMENTS OF COMPREHENSIVE INCOME
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**
**(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| OPERATING REVENUE | $ 10,123,801 | 100 | $ 9,798,594 | 100 |
| OPERATING COST | 6,232,121 | 61 | 6,116,544 | 63 |
| GROSS PROFIT | 3,891,680 | 39 | 3,682,050 | 37 |
| OPERATING EXPENSES | | | | |
| Selling expenses | 162,030 | 2 | 147,129 | 1 |
| General and administrative expenses | 442,135 | 4 | 370,922 | 4 |
| Research and development expenses | 2,790,622 | 28 | 2,457,238 | 25 |
| Expected credit loss (gain) | 2,876 | - | 1,403 | - |
| Total operating expenses | 3,397,663 | 34 | 2,976,692 | 30 |
| PROFIT FROM OPERATIONS | 494,017 | 5 | 705,358 | 7 |
| NON-OPERATING INCOME AND EXPENSES | | | | |
| Interest expense | (7,327) | - | - | - |
| Share of profit of subsidiaries and associates accounted for using equity method | 65,476 | - | 17,004 | - |
| Interest income | 10,864 | - | 6,624 | - |
| Dividend income | 66,899 | 1 | 67,547 | 1 |
| Other gains and losses | 5,433 | - | 470 | - |
| Gains (losses) on disposal of property, plant and equipment | 225 | - | 1,163 | - |
| Foreign exchange gains (losses) | (1,875) | - | 13,882 | - |
| Gains (losses) on financial instruments at fair value through profit or loss | (253) | - | (30,411) | - |
| Total non-operating income and expenses | 139,442 | 1 | 76,279 | 1 |
| PROFIT BEFORE INCOME TAX | 633,459 | 6 | 781,637 | 8 |
| INCOME TAX EXPENSE (Notes 4 and 19) | (75,000) | (1) | (71,004) | (1) |
| NET PROFIT FOR THE YEAR | 558,459 | 5 | 710,633 | 7 |

(Continued)

# NUVOTON TECHNOLOGY CORPORATION

**STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**
**(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** |
| OTHER COMPREHENSIVE INCOME (LOSSES) | | | | |
| Items that will not be reclassified subsequently to profit or loss: | | | | |
| Remeasurement of defined benefit plans (Notes 4 and 17) | $ (46,150) | - | $ (69,908) | (1) |
| Unrealized gains (losses) on investments in equity instruments at fair value through other comprehensive income | 24,790 | - | (135,687) | (1) |
| Share of other comprehensive income (loss) of subsidiaries and associates accounted for using equity method | 4,423 | - | (57,888) | (1) |
| Items that may be reclassified subsequently to profit or loss: | | | | |
| Exchange differences on translating of foreign operations | (8,449) | - | (10,370) | - |
| Other comprehensive income (loss) | (25,386) | - | (273,853) | (3) |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | $ 533,073 | 5 | $ 436,780 | 4 |
| EARNINGS PER SHARE (Notes 4 and 22) | | | | |
| From continuing operations | | | | |
| Basic | $ 2.53 | | $ 3.42 | |
| Diluted | $ 2.52 | | $ 3.40 | |

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

## NUVOTON TECHNOLOGY CORPORATION

**STATEMENTS OF CHANGES IN EQUITY**
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**
**(In Thousands of New Taiwan Dollars)**

| | | | Retained Earnings | | Other Equity | | | |
|---|---|---|---|---|---|---|---|---|
| | Share Capital | Capital Surplus | Legal Reserve | Unappropriated Earnings | Exchange Differences on Translation of Foreign Financial Statements | Unrealized Gains (Losses) on Financial Assets at Fair Value Through Other Comprehensive Income | Unrealized Gains (Losses) on Available-for-sale Financial Assets | Total Equity |
| BALANCE AT JANUARY 1, 2018 | $ 2,075,544 | $ 63,498 | $ 401,846 | $ 896,014 | $ (165) | $ - | $ 226,224 | $ 3,662,961 |
| Effect of retrospective application and retrospective restatement (Note 3) | - | - | - | 493 | - | 379,242 | (226,224) | 153,511 |
| BALANCE AT JANUARY 1, 2018 AS RESTATED | 2,075,544 | 63,498 | 401,846 | 896,507 | (165) | 379,242 | - | 3,816,472 |
| Appropriation of 2017 earnings (Note 18) | | | | | | | | |
| Legal reserve | - | - | 68,813 | (68,813) | - | - | - | - |
| Cash dividends | - | - | - | (518,886) | - | - | - | (518,886) |
| Net profit for the year ended December 31, 2018 | - | - | - | 710,633 | - | - | - | 710,633 |
| Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax | - | - | - | (67,323) | (10,370) | (196,160) | - | (273,853) |
| Total comprehensive income (loss) for the year ended December 31, 2018 | - | - | - | 643,310 | (10,370) | (196,160) | - | 436,780 |
| Disposals of investments in equity instruments designated as at fair value through other comprehensive income (Notes 10 and 18) | - | - | - | 3,228 | - | (3,228) | - | - |
| BALANCE AT DECEMBER 31, 2018 | 2,075,544 | 63,498 | 470,659 | 955,346 | (10,535) | 179,854 | - | 3,734,366 |
| Appropriation of 2018 earnings (Note 18) | | | | | | | | |
| Legal reserve | - | - | 71,063 | (71,063) | - | - | - | - |
| Cash dividends | - | - | - | (518,886) | - | - | - | (518,886) |
| Net profit for the year ended December 31, 2019 | - | - | - | 558,459 | - | - | - | 558,459 |
| Other comprehensive income (loss) for the year ended December 31, 2019, net of income tax | - | - | - | (56,330) | (8,449) | 39,393 | - | (25,386) |
| Total comprehensive income (loss) for the year ended December 31, 2019 | - | - | - | 502,129 | (8,449) | 39,393 | - | 533,073 |
| Compensation cost of employee share options (Notes 18 and 21) | - | 49,920 | - | - | - | - | - | 49,920 |
| Unclaimed dividends extinguished by prescriptions | - | 52 | - | - | - | - | - | 52 |
| Disposals of investments in equity instruments designated as at fair value through other comprehensive income (Notes 10 and 18) | - | - | - | 49,703 | - | (49,703) | - | - |
| Issuance of ordinary shares for cash (Note 18) | 800,000 | 2,793,506 | - | - | - | - | - | 3,593,506 |
| BALANCE AT DECEMBER 31, 2019 | $ 2,875,544 | $ 2,906,976 | $ 541,722 | $ 917,229 | $ (18,984) | $ 169,544 | $ - | $ 7,392,031 |

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

# NUVOTON TECHNOLOGY CORPORATION

**STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**
**(In Thousands of New Taiwan Dollars)**

| | 2019 | 2018 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Profit before income tax | $ 633,459 | $ 781,637 |
| Adjustments for: | | |
| Depreciation expense | 200,994 | 140,681 |
| Amortization expense | 75,706 | 68,518 |
| Interest expense | 7,327 | - |
| Expected credit loss (gain) recognized on accounts receivable | 2,876 | 1,403 |
| Interest income | (10,864) | (6,624) |
| Dividend income | (66,899) | (67,547) |
| Compensation cost of employee share options | 49,920 | - |
| Share of profit of subsidiaries and associates accounted for using equity method | (65,476) | (17,004) |
| Unrealized gain or loss | 268 | 673 |
| Net (gains) losses on financial assets at fair value through profit or loss | (5,274) | 947 |
| (Gains) losses on disposal of property, plant and equipment | (225) | (1,163) |
| Changes in operating assets and liabilities | | |
| (Increase) decrease in notes and accounts receivable | (118,232) | (60,462) |
| (Increase) decrease in accounts receivable from related parties | 187,342 | (103,296) |
| (Increase) decrease in other receivables | (257,895) | 318,924 |
| (Increase) decrease in inventories | (42,923) | 68,421 |
| (Increase) decrease in other current assets | 25,450 | 52,777 |
| (Increase) decrease in other non-current assets | - | 2,381 |
| Increase (decrease) in accounts payable | 240,149 | (45,817) |
| Increase (decrease) in other payables | 54,136 | (49,635) |
| Increase (decrease) in other current liabilities | 3,156 | (25,353) |
| Increase (decrease) on accrued pension liabilities | (72,217) | (79,132) |
| Increase (decrease) in other non-current liabilities | 13 | (7,520) |
| Cash flows from (used in) operations | 840,791 | 972,809 |
| Income tax paid | (83,192) | (73,539) |
| Interest paid | (6,688) | - |
| Interest received | 7,795 | 6,656 |
| Dividend received | 66,999 | 67,547 |
| Net cash flows from (used in) operating activities | 825,705 | 973,473 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of intangible assets | (113,184) | (23,750) |
| Proceeds from disposal of financial assets at fair value through other comprehensive income | 87,266 | 5,850 |
| Acquisition of financial assets at fair value through other comprehensive income | (630,000) | - |
| Proceeds from capital reduction of financial assets at fair value through other comprehensive income | 4,000 | 3,500 |

(Continued)

# NUVOTON TECHNOLOGY CORPORATION

**STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**
**(In Thousands of New Taiwan Dollars)**

| | 2019 | 2018 |
|---|---|---|
| Acquisition of investments accounted for using equity method | $ (18,277) | $ - |
| Proceeds from capital reduction of investments accounted for using equity method | - | 75,826 |
| Acquisition of property, plant and equipment | (191,465) | (154,894) |
| Proceeds from disposal of property, plant and equipment | 225 | 1,639 |
| (Increase) decrease in refundable deposits paid | (5,582) | (9,970) |
| Net cash flows from (used in) investing activities | (867,017) | (101,799) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from long-term borrowings | 500,000 | - |
| Repayments of the principal portion of lease liabilities | (42,452) | - |
| Dividends paid to owners of the Company | (518,886) | (518,886) |
| Proceeds from issuance of ordinary shares for cash | 3,593,506 | - |
| Other financing activities | 52 | - |
| Net cash flows from (used in) financing activities | 3,532,220 | (518,886) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 3,490,908 | 352,788 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 960,293 | 607,505 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | $4,451,201 | $ 960,293 |

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

## 1. GENERAL INFORMATION

Nuvoton Technology Corporation (the "Company") was incorporated in the Republic of China ("ROC") in April 2008 and commenced business in July 2008. The Company is engaged mainly in the research, design, development, manufacture, and sale of logic integrated circuits ("ICs") and the manufacturing, testing and OEM of 6-inch wafers.

For the specialization and division of labor and the reinforcement of core competitive ability, the Company's parent company, Winbond Electronics Corporation ("WEC"), spun off its Logic IC business into the Company on July 1, 2008 in accordance with the Business Mergers and Acquisitions Act and the Company commenced business in July 2008. WEC held approximately 62% and 61% of the ownership interest in the Company as of December 31, 2019 and 2018, respectively.

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

## 2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors and authorized for issue on February 6, 2020.

## 3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), International Financing Reporting Interpretation Committee (IFRIC), and SIC Interpretations (SIC) (collectively, the "IFRSs") endorsed and issued into effect by the Financial Supervisory Commission (FSC)

   Except for the following, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC did not have material impact on the Company's accounting policies:

   1) IFRS 16 "Leases"

      IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both the lessee and the lessor. It supersedes IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", and a number of related interpretations. Refer to Note 4 for information relating to the relevant accounting policies.

      Definition of a lease

      The Company elects to apply the guidance of IFRS 16 in determining whether contracts are, or contain, a lease only to contracts entered into (or changed) on or after January 1, 2019. Contracts identified as containing a lease under IAS 17 and IFRIC 4 are not reassessed and are accounted for in accordance with the transitional provisions under IFRS 16.

The Company as lessee

The Company recognizes right-of use assets and lease liabilities for all leases on the balance sheets except for those whose payments under low-value asset and short-term leases are recognized as expenses on a straight-line basis. On the statements of comprehensive income, the Company presents the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the interest portion are classified within operating activities. Prior to the application of IFRS 16, payments under operating lease contracts were recognized as expenses on a straight-line basis. Cash flows for operating leases were classified within operating activities on the statements of cash flows. Leased assets and finance lease payables were recognized on the balance sheets for contracts classified as finance leases.

The Company elects to apply IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized in retained earnings on January 1, 2019. Comparative information is not restated.

The lessee’s weighted average incremental borrowing rate applied to lease liabilities recognized on January 1, 2019 is 1.44%-2.06%. The difference between the lease liabilities recognized and operating lease commitments disclosed on December 31, 2018 is explained as follows:

| | |
|---|---|
| The future minimum lease payments of non-cancellable operating lease commitments on December 31, 2018 | $ 311,571 |
| Less: Recognition exemption for short-term leases | (2,457) |
| Undiscounted amounts on January 1, 2019 | $ 309,114 |
| Lease liabilities recognized on January 1, 2019 | $ 288,202 |

The Company as lessor

Except for sublease transactions, the Company does not make any adjustments for leases in which it is a lessor, and it accounts for those leases with the application of IFRS 16 starting from January 1, 2019.

The Company subleased its leasehold to a third party. Such sublease was classified as an operating lease under IAS 17. The Company classified the sublease as a finance lease on the basis of the remaining contractual terms and conditions of the head lease and sublease on January 1, 2019.

The impact on assets, liabilities and equity as of January 1, 2019 from the initial application of IFRS 16 is set out as follows:

| | **Carrying Amount as of December 31, 2018** | **Adjustments Arising from Initial Application** | **Adjusted Carrying Amount as of January 1, 2019** |
|---|---|---|---|
| Prepayments for leases - current | $ 3,463 | $ (3,463) | $ - |
| Prepayments for leases - non-current | 35,129 | (35,129) | - |
| Right-of-use assets | - | 326,794 | 326,794 |
| Total effect on assets | $ 38,592 | $ 288,202 | $ 326,794 |

(Continued)

| | Carrying Amount as of December 31, 2018 | Adjustments Arising from Initial Application | Adjusted Carrying Amount as of January 1, 2019 |
|---|---|---|---|
| Lease liabilities - current | $ - | $ 43,487 | $ 43,487 |
| Lease liabilities - non-current | - | 244,715 | 244,715 |
| Total effect on liabilities | $ - | $ 288,202 | $ 288,202 |
| Retained Earnings | $ 1,426,005 | $ - | $ 1,426,005 |

(Concluded)

2) IFRIC 23 "Uncertainty over Income Tax Treatments"

IFRIC 23 clarifies that when there is uncertainty over income tax treatments, the Company should assume that the taxation authority has full knowledge of all related information when making related examinations. If the Company concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the Company should determine the taxable profit, tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatments used or planned to be used in its income tax filings. If it is not probable that the taxation authority will accept an uncertain tax treatment, the Company should make estimates using either the most likely amount or the expected value of the tax treatment, depending on which method the Company expects to better predict the resolution of the uncertainty. The Company has to reassess its judgments and estimates if facts and circumstances change.

b. The IFRSs endorsed by the Financial Supervisory Commission (FSC) for application starting from 2020

| New IFRSs | Effective Date Announced by IASB |
|---|---|
| Amendments to IFRS 3 "Definition of a Business" | January 1, 2020 (Note 1) |
| Amendments to IFRS 9, IAS 39 and IFRS 7 "Interest Rate Benchmark Reform" | January 1, 2020 (Note 2) |
| Amendments to IAS 1 and IAS 8 "Definition of Material" | January 1, 2020 (Note 3) |

Note 1: The Company shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

Note 2: The Company shall apply these amendments retrospectively for annual reporting periods beginning on or after January 1, 2020.

Note 3: The Company shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

1) Amendments to IFRS 9, IAS 39 and IFRS 7 "Interest Rate Benchmark Reform"

The amendments deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark (such as the London Interbank Offered Rate or LIBOR) with an alternative interest rate, and provide temporary exceptions to all hedging relationships that are directly affected by the interest rate benchmark reform. The Company would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. The amendments also require additional disclosures about the extent to which the entity's hedging relationships are affected by the amendments.

2) Amendments to IAS 1 and IAS 8 "Definition of material"

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRSs. The concept of "obscuring" material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from "could influence" to "could reasonably be expected to influence".

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

c. New IFRSs in issue but not yet endorsed and issued into effect by the FSC

| New IFRSs | Effective Date Announced by IASB (Note) |
|---|---|
| Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" | To be determined by IASB |
| IFRS 17 "Insurance Contracts" | January 1, 2021 |

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

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

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Statement of Compliance

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

### Basis of Preparation

The financial statements have been prepared on the historical cost basis except for financial instruments and defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets that are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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

**Classification of Current and Non-current Assets and Liabilities**

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

**Foreign Currencies**

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

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

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when fair value was determined. Exchange differences arising from the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income; in which cases, the exchange differences are also recognized directly in other comprehensive income.

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

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

**Cash Equivalents**

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

**Financial Instruments**

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities other than financial assets and financial liabilities at FVTPL are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

a. Financial assets

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

Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost and investments in equity instruments at FVTOCI.

1) Financial asset at FVTPL

Financial assets are classified as at FVTPL when such financial assets are mandatorily classified or designated as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 24.

2) Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

a) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost are measured at amortized cost, which equals the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of such a financial asset, except for:

a) Purchased or originated credit-impaired financial assets, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of such financial asset; and

b) Financial assets that are not credit-impaired on purchase or origination but have subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of such financial assets in subsequent reporting periods.

3) Investments in equity instruments at FVTOCI

On initial recognition, the Company may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation as at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments; instead, it will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

b. Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivable).

The Company always recognizes lifetime Expected Credit Loss (ECL) on accounts receivable. On all other financial instruments, the Company recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Expected credit losses reflect the weighted average of credit losses with the respective risks of a default occurring as the weights. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Company recognizes an impairment loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

c. Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the financial asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the financial asset to another entity. On derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. However, on derecognition of an investment in an equity instrument at FVTOCI, the cumulative gain or loss which had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

d. Financial liabilities

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

Other financial liabilities are measured at amortized cost using the effective interest method.

e. Derecognition of financial liabilities

The difference between the carrying amount of a financial liability derecognized and the consideration paid is recognized in profit or loss.

f. Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risks, including foreign exchange forward contracts and cross-currency swaps.

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

**Inventories**

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

**Investments Accounted for Using Equity Method**

Investment in subsidiaries

Subsidiaries are the entities controlled by the Company. Under the equity method, an investment in a subsidiary is initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the subsidiary. The Company also recognizes the changes in the Company's share of equity of subsidiaries attributable to the Company.

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

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

Profit or loss resulting from downstream transactions is eliminated in full only in the parent company only financial statements. Profit and loss resulting from upstream transactions and transactions between subsidiaries is recognized only in the parent company only financial statements and only to the extent of interests in the subsidiaries that are not related to the Company.

**Property, Plant and Equipment**

Property, plant and equipment are initially measured at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment loss.

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

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

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

**Intangible Assets**

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

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

**Impairment of Tangible and Intangible Assets**

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

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

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

**Products Guarantee Based on Commitment**

The Company will estimate guarantee provision by using appropriate ratio at the time the related product is sold.

**Revenue Recognition**

The Company identifies the performance obligations in the contract with customers, allocates the transaction price to the performance obligations in the contracts and recognizes revenue when (or as) the Company satisfies a performance obligation.

Revenue from the sale of goods is mainly recognized when a customer obtains control of promised goods, at which time the goods are delivered to the customer’s specific location and performance obligation is satisfied.

Revenue from sale of goods is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Provision for estimated sales returns and other allowances is generally made and adjusted based on historical experience and on the consideration of varying contractual terms affecting the recognition of a provision, which is classified under other non-current liabilities.

**Leasing**

2019

At the inception of a contract, the Company assesses whether the contract is, or contains, a lease.

a. The Company as lessor

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

   When the Company subleases a right-of-use asset, the sublease is classified by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. However, if the head lease is a short-term lease that the Company, as a lessee, has accounted for applying recognition exemption, the sublease is classified as an operating lease.

   Under finance leases, the lease payments comprise fixed payments, in-substance fixed payments, variable lease payments which depend on an index or a rate, residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating a lease if the lease term reflects such termination, less any lease incentives payable. The net investment in a lease is measured at (a) the present value of the sum of the lease payments receivable by a lessor and any unguaranteed residual value accrued to the lessor plus (b) initial direct costs, and is presented as a finance lease receivable. Finance lease income is allocated to the relevant accounting periods so as to reflect a constant, periodic rate of return on the Company's net investment outstanding in respect of leases.

   Under operating lease, lease payments (less any lease incentives payable) are recognized as income on a straight-line basis over the terms of the relevant lease. Initial direct costs incurred in obtaining operating lease are added to the carrying amount of the underlying assets and recognized as expenses on a straight-line basis over the lease terms.

b. The Company as lessee

   The Company recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases and low-value asset leases accounted for applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms.

   Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs needed to restore the underlying assets, and less any lease incentives received. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities.

   Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms.

Lease liabilities are initially measured at the present value of the lease payments, which comprise fixed payments, in-substance fixed payments, variable lease payments which depend on an index or a rate, residual value guarantees, the exercise price of a purchase option if the Company is reasonably certain to exercise that option, and payments of penalties for terminating a lease if the lease term reflects such termination, less any lease incentives receivable. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses the lessee's incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term, a change in the amounts expected to be payable under a residual value guarantee, a change in the assessment of an option to purchase an underlying asset, or a change in future lease payments resulting from a change in an index or a rate used to determine those payments, the Company remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. Lease liabilities are presented on a separate line in the balance sheets.

<u>2018</u>

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

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

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

**Employee Benefits**

a. Short-term employee benefits

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

b. Retirement benefits

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

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

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

**Share-based payment arrangements**

Cash-settled share-based payment is a liability in which the entity receives goods or services and the fair value of the amount payable is initially measured at cost. The amount is remeasured at each reporting date and at settlement based on the fair value. Any changes in the liabilities are recognized in profit or loss, with a corresponding adjustment to capital surplus - employee share options.

**Taxation**

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

a. Current tax

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

b. Deferred tax

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

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

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

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

**Write-down of Inventories**

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

## 6. CASH AND CASH EQUIVALENTS

| | December 31 | |
|---|---|---|
| | **2019** | **2018** |
| Cash and cash in bank | $ 4,242,201 | $ 836,993 |
| Repurchase agreements collateralized by bonds | 209,000 | 123,300 |
| | $ 4,451,201 | $ 960,293 |

a. The Company has time deposits pledged to secure land leases and customs tariff obligations which are reclassified as "refundable deposits" as follows:

| | December 31 | |
|---|---|---|
| | **2019** | **2018** |
| Time deposits | $ 75,988 | $ 72,074 |

b. The Company has time deposits which are not held for the purpose of meeting short-term cash commitments and are reclassified to "other receivables" as follows:

| | December 31 | |
|---|---|---|
| | **2019** | **2018** |
| Time deposits | $ 249,900 | $ - |

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

| | December 31 | |
|---|---|---|
| | **2019** | **2018** |
| Financial assets at FVTPL - current | | |
| Foreign exchange forward contracts | $ 6,037 | $ 763 |

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

| | Currencies | Maturity Date | Contract Amount (In Thousands) |
|---|---|---|---|
| December 31, 2019 | | | |
| Sell forward exchange contracts | USD/NTD | 2020.01.03-2020.03.05 | USD20,000/NTD604,050 |
| December 31, 2018 | | | |
| Sell forward exchange contracts | USD/NTD | 2019.01.04-2019.02.21 | USD17,000/NTD521,731 |

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

## 8. NOTES AND ACCOUNTS RECEIVABLE

| | December 31 | |
|---|---|---|
| | 2019 | 2018 |
| Notes receivable | $ 21 | $ - |
| Accounts receivable (including related parties) | | |
| At amortized cost | | |
| Gross carrying amount | 878,585 | 947,716 |
| Less: Allowance for impairment loss | (16,564) | (13,688) |
| | $ 862,042 | $ 934,028 |

The average credit period of sales of goods was 30-60 days. No interest was charged on trade receivables. The Company adopted a policy of only dealing with entities that are rated the equivalent of investment grade or higher and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company uses other publicly available financial information and its own trading records to rate its major customers. The Company's exposure and the credit ratings of its counterparties are continuously monitored. Credit exposure is controlled by counterparty limits that are reviewed and approved annually.

In order to minimize credit risk, the management of the Company has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Company reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowance is made for possible irrecoverable amounts. In this regard, the management believes the Company's credit risk was significantly reduced.

The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The Company estimates expected credit losses based on past due days. As the Company's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished between the Company's different customer base.

The Company writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. For trade receivables that have been written off, the Company continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of trade receivables based on the Company's provision matrix.

December 31, 2019

| | Not Overdue | Overdue under 30 Days | Overdue 31-90 Days | Overdue 91-180 Days | Over 180 Days | Total |
|---|---|---|---|---|---|---|
| Expected credit loss rate | 2% | 2% | 10% | 20% | 50% | |
| Gross carrying amount | $ 872,950 | $ 5,656 | $ - | $ - | $ - | $ 878,606 |
| Loss allowance (lifetime ECL) | (16,451) | (113) | - | - | - | (16,564) |
| Amortized cost | $ 856,499 | $ 5,543 | $ - | $ - | $ - | $ 862,042 |

December 31, 2018

| | Not Overdue | Overdue under 30 Days | Overdue 31-90 Days | Overdue 91-180 Days | Over 180 Days | Total |
|---|---|---|---|---|---|---|
| Expected credit loss rate | 2% | 2% | 10% | 20% | 50% | |
| Gross carrying amount | $ 939,082 | $ 8,634 | $ - | $ - | $ - | $ 947,716 |
| Loss allowance (lifetime ECL) | (13,514) | (174) | - | - | - | (13,688) |
| Amortized cost | $ 925,568 | $ 8,460 | $ - | $ - | $ - | $ 934,028 |

The movements of the loss allowance of notes and trade receivables were as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2019 | 2018 |
| Balance at January 1 | $ 13,688 | $ 12,285 |
| Add: Net remeasurement of loss allowance | 2,876 | 1,403 |
| Balance at December 31 | $ 16,564 | $ 13,688 |

The Company's provision for losses on accounts receivable was recognized on a collective basis.

## 9. INVENTORIES

| | December 31 | |
|---|---|---|
| | 2019 | 2018 |
| Raw materials and supplies | $ 105,937 | $ 123,949 |
| Work-in-process | 1,178,694 | 1,061,800 |
| Finished goods | 307,603 | 339,286 |
| Inventories in transit | 8,199 | 32,475 |
| | $ 1,600,433 | $ 1,557,510 |

a. As of December 31, 2019 and 2018, the allowance for inventory value decline was $361,228 thousand and $327,476 thousand, respectively.

b. The operating cost for the years ended December 31, 2019 and 2018 was $6,232,121 thousand and $6,116,544 thousand, respectively. The inventory write-downs and obsolescence and abandonment of inventories for the years ended December 31, 2019 and 2018 were $58,931 thousand and $45,385 thousand, respectively.

## 10. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Investments in equity instruments at FVTOCI:

| | December 31 | |
|---|---|---|
| | 2019 | 2018 |
| Domestic listed shares and emerging market shares | | |
| Nyquest Technology Co., Ltd. | $ - | $ 74,092 |
| Brightek Optoelectronic Co., Ltd. | 485 | 341 |
| Unlisted shares | | |
| United Industrial Gases Co., Ltd. | 440,000 | 396,000 |
| Yu-Ji Venture Capital Co., Ltd. | 16,605 | 22,733 |
| Autotalks Ltd. - Preferred E. Share | 599,600 | - |
| | $ 1,056,690 | $ 493,166 |

These investments in equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Company's strategy of holding these investments for long-term purposes.

In 2019, the Company sold out its shares in Nyquest Technology Co., Ltd. in order to manage credit concentration risk. The shares sold had a fair value of NT$87,266 thousand and its related unrealized valuation gain of NT$49,703 thousand was transferred from other equity to retained earnings. Refer to Note 18 for related information.

Dividends of $66,899 thousand were recognized during 2019. The dividends related to investments derecognized during 2019 were $4,006 thousand, and those related to investments held at December 31, 2019 were $62,893 thousand.

In August 2019, the Company resolved to invest in the Preferred E Share of the non-related party communication chip maker in Israel, Autotalks Ltd. The rights of the Preferred E Share were as follows:

a. Each Preferred E Share grants its holder a number of votes equal to the number of votes per Ordinary Share.

b. The Preferred E Share shall be prior to all other equity securities of Autotalks Ltd. in the event of liquidation.

c. The holders of the Preferred E Share shall be entitled to receive non-cumulative cash dividends at the rate of eight percent.

d. The investors shall have the right to appoint one non-voting observer ("Observer") to attend Autotalks Ltd.'s board meetings.

e. The holders of the Preferred E Share shall be entitled to preemptive right with respect to future issuance of new securities of Autotalks Ltd.

f. The investors have the rights to obtain the annual financial statements, quarterly financial statements and etc.

## 11. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

| | December 31 | |
|---|---|---|
| | **2019** | **2018** |
| Investments in subsidiaries | $ 1,102,658 | $ 1,009,874 |

| | December 31 | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| | **Carrying Value** | **Ownership Percentage** | **Carrying Value** | **Ownership Percentage** |
| Non-listed companies | | | | |
| Marketplace Management Ltd. ("MML") | $ 77,837 | 100 | $ 78,279 | 100 |
| Pigeon Creek Holding Co., Ltd. ("PCH") | - | - | 178,644 | 100 |
| Nuvoton Technology Corporation America ("NTCA") | 186,060 | 100 | - | - |
| Nuvoton Investment Holding Ltd. ("NIH") | 277,739 | 100 | 217,761 | 100 |
| Nuvoton Electronics Technology (H.K.) Limited ("NTHK") | 459,960 | 100 | 452,809 | 100 |
| Song Yong Investment Corporation ("SYI") | 78,834 | 100 | 60,600 | 100 |
| Nuvoton Technology India Private Ltd. ("NTIPL") | 22,228 | 100 | 21,781 | 100 |
| | $ 1,102,658 | | $ 1,009,874 | |

In 2019, the Company increased its investments in MML and NIH by $1,620 thousand and $16,657 thousand, respectively.

To simplify investment structure, PCH completed the liquidation and legal procedures in January 2019; NTCA, the subsidiary of PCH, is held directly by the Company.

## 12. PROPERTY, PLANT AND EQUIPMENT

| | December 31 | |
|---|---|---|
| | 2019 | 2018 |
| Land and buildings | $ 189,755 | $ 198,813 |
| Machinery and equipment | 440,414 | 368,727 |
| Other equipment | 41,444 | 44,708 |
| Construction in progress and prepayments for purchase of equipment | 1,416 | - |
| | $ 673,029 | $ 612,248 |

| | Land and Buildings | Machinery and Equipment | Other Equipment | Construction in Progress and Prepayments for Purchase of Equipment | Total |
|---|---|---|---|---|---|
| Cost | | | | | |
| Balance at January 1, 2019 | $ 3,649,662 | $ 11,316,907 | $ 187,265 | $ - | $ 15,153,834 |
| Additions | 16,446 | 187,551 | 11,197 | 1,416 | 216,610 |
| Disposals | (3,964) | (43,101) | (645) | - | (47,710) |
| Reclassified | - | - | - | - | - |
| Balance at December 31, 2019 | 3,662,144 | 11,461,357 | 197,817 | 1,416 | 15,322,734 |
| Accumulated depreciation and impairment | | | | | |
| Balance at January 1, 2019 | 3,450,849 | 10,948,180 | 142,557 | - | 14,541,586 |
| Disposals | (3,964) | (43,101) | (645) | - | (47,710) |
| Depreciation expenses | 25,504 | 115,864 | 14,461 | - | 155,829 |
| Reclassified | - | - | - | - | - |
| Balance at December 31, 2019 | 3,472,389 | 11,020,943 | 156,373 | - | 14,649,705 |
| Carrying amount at December 31, 2019 | $ 189,755 | $ 440,414 | $ 41,444 | $ 1,416 | $ 673,029 |
| Cost | | | | | |
| Balance at January 1, 2018 | $ 3,608,264 | $ 11,356,715 | $ 192,634 | $ 797 | $ 15,158,410 |
| Additions | 41,375 | 138,827 | 3,438 | - | 183,640 |
| Disposals | - | (179,432) | (8,784) | - | (188,216) |
| Reclassified | 23 | 797 | (23) | (797) | - |
| Balance at December 31, 2018 | 3,649,662 | 11,316,907 | 187,265 | - | 15,153,834 |
| Accumulated depreciation and impairment | | | | | |
| Balance at January 1, 2018 | 3,425,627 | 11,027,511 | 135,507 | - | 14,588,645 |
| Disposals | - | (178,956) | (8,784) | - | (187,740) |
| Depreciation expenses | 25,199 | 99,625 | 15,857 | - | 140,681 |
| Reclassified | 23 | - | (23) | - | - |
| Balance at December 31, 2018 | 3,450,849 | 10,948,180 | 142,557 | - | 14,541,586 |
| Carrying amount at December 31, 2018 | $ 198,813 | $ 368,727 | $ 44,708 | $ - | $ 612,248 |

## 13. LEASE ARRANGEMENTS

a. Right-of-use assets - 2019

| | December 31, 2019 |
|---|---|
| Carrying amounts | |
| Land | $ 226,581 |
| Buildings | 105,153 |
| Other equipment | 19,602 |
| | $ 351,336 |

| | For the Year Ended December 31, 2019 |
|---|---|
| Additions to right-of-use assets | $ 69,707 |
| Depreciation charge for right-of-use assets | |
| Land | $ 25,408 |
| Buildings | 18,543 |
| Other equipment | 1,214 |
| | $ 45,165 |
| Income from the subleasing of right-of-use assets (presented in other income) | $ (6,005) |

b. Lease liabilities - 2019

| | December 31, 2019 |
|---|---|
| Carrying amounts | |
| Current | $ 53,885 |
| Non-current | $ 262,054 |

Range of discount rate for lease liabilities was as follows:

| | December 31, 2019 |
|---|---|
| Land | 1.76%-2.06% |
| Buildings | 1.09%-1.61% |
| Other equipment | 1.09%-2.06% |

For the year ended December 31, 2019, the interest expense under lease liabilities amounted to $4,409 thousand.

c. Material lease-in activities and terms

The Company leased parcels of land from Science Park Administration, and the lease term will expire in December 2027, which can be extended after the expiration of the lease periods.

The Company leased parcel of land from Taiwan Sugar Corporation under a twenty-year term from October 2014 to September 2034, which is allowed to extend after the expiration of the lease. The chairman of the Company, is a joint guarantor of such lease (refer to Note 25).

The Company leased some of the offices in the United States, China, Israel, India, Shen-Zhen and part in Taiwan, and the lease terms will expire between 2022 and 2026 which can be extended after the expiration of the lease periods.

d. Subleases

The Company subleases its right-of-use assets for buildings under operating leases with lease terms between 3 to 5 years.

The maturity analysis of lease payments receivable under operating subleases was as follows:

| | **December 31, 2019** |
|---|---|
| Year 1 | $ 5,769 |
| Year 2 | 5,855 |
| Year 3 | 5,911 |
| Year 4 | 1,985 |
| Year 5 | - |
| Year 6 onwards | - |
| | $ 19,520 |

To reduce the residual asset risk related to the subleased asset at the end of the relevant sublease, the lease contract between the Company and the lessee includes the receipt of the deposits and the compensation for damage due to the lack of management and maintenance.

e. Other lease information

2019

| | **For the Year Ended December 31, 2019** |
|---|---|
| Expenses relating to short-term leases | $ 2,247 |
| Total cash (outflow) for leases | $ (48,627) |

The Company leases certain buildings and transportation equipment which qualify as short-term leases. The Company has elected to apply the recognition exemption and thus, did not recognize right-of-use assets and lease labilities for these leases.

2018

Prepayments for lease obligations

| | December 31, 2018 |
|---|---|
| Current (presented in other current assets) | $ 3,463 |
| Non-current (presented in other non-current assets) | 35,129 |
| | $ 38,592 |

Prepayments for lease obligations are prepayments for the right of land access which the Company leased from Taiwan Sugar Corporation.

Lease expense

| | For the Year Ended December 31, 2018 |
|---|---|
| Lease expense | $ 38,096 |

## 14. INTANGIBLE ASSETS

| | December 31 | |
|---|---|---|
| | 2019 | 2018 |
| Deferred technical assets | $ 192,005 | $ 122,967 |

| | Deferred Technical Assets |
|---|---|
| Cost | |
| Balance at January 1, 2019 | $ 904,864 |
| Addition | 144,744 |
| Balance at December 31, 2019 | 1,049,608 |
| Accumulated amortization and impairment | |
| Balance at January 1, 2019 | 781,897 |
| Amortization expenses | 75,706 |
| Balance at December 31, 2019 | 857,603 |
| Carrying amount at December 31, 2019 | $ 192,005 |
| Cost | |
| Balance at January 1, 2018 | $ 876,878 |
| Addition | 27,986 |
| Balance at December 31, 2018 | 904,864 |

(Continued)

| | Deferred Technical Assets |
|---|---|
| Accumulated amortization and impairment | |
| Balance at January 1, 2018 | $ 713,379 |
| Amortization expenses | 68,518 |
| Balance at December 31, 2018 | 781,897 |
| Carrying amount at December 31, 2018 | $ 122,967 |

(Concluded)

## 15. BORROWINGS

### Long-term Borrowings

| | Period | Interest Rate | December 31 2019 | December 31 2018 |
|---|---|---|---|---|
| Unsecured borrowings | | | | |
| The Export-Import Bank of ROC | 2019.09.20-2026.09.21 | 1.16% | $ 500,000 | $ - |

The proceeds of the Company's unsecured loan from the Export-Import Bank of ROC was invested in Autotalks Ltd. The principal will be repaid every six months from September 20, 2023 until maturity and the interest rate will be reviewed and may be adjusted every six months.

## 16. OTHER PAYABLES

| | December 31 2019 | December 31 2018 |
|---|---|---|
| Payable for salaries or employee benefits | $ 338,420 | $ 365,098 |
| Payable for subsidiaries service fees (Note 25) | 159,485 | 102,323 |
| Payable for royalties | 129,494 | 99,273 |
| Payable for purchase of equipment | 93,167 | 68,022 |
| Payable for software | 58,540 | 55,363 |
| Others | 249,143 | 227,173 |
| | $ 1,028,249 | $ 917,252 |

## 17. RETIREMENT BENEFIT PLANS

a. Defined contribution plan

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

b. Defined benefit plans

The defined benefit plans adopted by the Company in accordance with the Labor Standards Law is operated by the government of the ROC. Pension benefits are calculated on the basis of the length of service and average of monthly salaries of the 6 months before retirement. In 2019 and 2018, the Company contributed amounts equal to 15% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee of the Company. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Company has no right to influence the investment policy and strategy.

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

| | December 31 | |
|---|---|---|
| | **2019** | **2018** |
| Present value of defined benefit obligation | $ 963,380 | $ 923,106 |
| Fair value of plan assets | (696,585) | (630,244) |
| Net defined benefit liability | $ 266,795 | $ 292,862 |

Movements in net defined benefit liabilities (assets) were as follows:

| | **Present Value of the Defined Benefit Obligation** | **Fair Value of the Plan Assets** | **Net Defined Benefit Liability (Asset)** |
|---|---|---|---|
| Balance at January 1, 2018 | $ 872,507 | $ (570,421) | $ 302,086 |
| Service cost | | | |
| Current service cost | 8,597 | - | 8,597 |
| Net interest expense (income) | 12,758 | (8,901) | 3,857 |
| Recognized in profit or loss | 21,355 | (8,901) | 12,454 |
| Remeasurement | | | |
| Actuarial (gain) loss - the discount rate more (less) than the realized rate of return | - | (13,703) | (13,703) |
| Actuarial (gain) loss - changes in financial assumptions | 21,231 | - | 21,231 |
| Actuarial (gain) loss - experience adjustments | 62,380 | - | 62,380 |
| Recognized in other comprehensive income | 83,611 | (13,703) | 69,908 |
| Contributions from the employer | - | (83,526) | (83,526) |
| Plan assets paid | (46,307) | 46,307 | - |
| Settlement of pension liabilities | (8,060) | - | (8,060) |
| Balance at December 31, 2018 | 923,106 | (630,244) | 292,862 |
| Service cost | | | |
| Current service cost | 8,394 | - | 8,394 |
| Net interest expense (income) | 11,235 | (8,114) | 3,121 |
| Recognized in profit or loss | 19,629 | (8,114) | 11,515 |

(Continued)

| | Present Value of the Defined Benefit Obligation | Fair Value of the Plan Assets | Net Defined Benefit Liability (Asset) |
|---|---|---|---|
| Remeasurement | | | |
| Actuarial (gain) loss - the discount rate more (less) than the realized rate of return | $ - | $ (19,854) | $ (19,854) |
| Actuarial (gain) loss - changes in financial assumptions | 42,080 | - | 42,080 |
| Actuarial (gain) loss - experience adjustments | 23,924 | - | 23,924 |
| Recognized in other comprehensive income | 66,004 | (19,854) | 46,150 |
| Contributions from the employer | - | (83,732) | (83,732) |
| Plan assets paid | (45,359) | 45,359 | - |
| Balance at December 31, 2019 | $ 963,380 | $ (696,585) | $ 266,795 |

(Concluded)

The amounts recognized in profit or loss in respect of the defined benefit plans is as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2019 | 2018 |
| Analysis by function | | |
| Operating costs | $ 6,253 | $ 6,932 |
| Selling expenses | 103 | 105 |
| General and administrative expenses | 988 | 1,054 |
| Research and development expenses | 4,171 | 4,363 |
| | $ 11,515 | $ 12,454 |

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

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

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

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

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

| | December 31 | |
|---|---|---|
| | **2019** | **2018** |
| Discount rate(s) | 0.75% | 1.25% |
| Expected rate(s) of salary increase | 1%-2% | 1%-2% |

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

| | December 31 | |
|---|---|---|
| | **2019** | **2018** |
| Discount rate(s) | | |
| 0.25% increase | $ (21,183) | $ (21,231) |
| 0.25% decrease | $ 21,896 | $ 21,977 |
| Expected rate(s) of salary increase | | |
| 0.25% increase | $ 21,637 | $ 21,830 |
| 0.25% decrease | $ (21,042) | $ (21,195) |

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

| | December 31 | |
|---|---|---|
| | **2019** | **2018** |
| Expected contributions to the plans for the next year | $ 11,064 | $ 86,365 |
| Average duration of the defined benefit obligation | 9 years | 9.4 years |

## 18. EQUITY

a. Share capital

Ordinary shares

| | December 31 | |
|---|---|---|
| | **2019** | **2018** |
| Authorized shares (in thousands) | 500,000 | 300,000 |
| Authorized capital | $ 5,000,000 | $ 3,000,000 |
| Issued and paid shares (in thousands) | 287,554 | 207,554 |
| Issued capital | $ 2,875,544 | $ 2,075,544 |
| Par value (in New Taiwan dollars) | $ 10 | $ 10 |

On July 25, 2019, the Company's board of directors resolved to issue 80,000 thousand ordinary shares with a par value of NT$10 to fund working capital. On August 26, 2019, this resolution was approved by the FSC. The consideration of NT$45 per share was determined by the chairman as authorized by the board of directors of the Company; the subscription base date was October 23, 2019; the increase in share capital was fully paid. The associated issuance cost of $6,494 thousand was deducted from capital surplus - additional paid-in capital.

On December 6, 2019, the extraordinary general shareholders' meeting of the Company resolved to increase its capital by issuing ordinary shares between 60,000 thousand and 90,000 thousand through the offering of the Global Depository Shares (GDSs) to raise fund for the acquisition of the related business of Panasonic Semiconductor. The offering price for the GDSs was NT$45 per share tentatively. According to the laws, the actual offering price should not be lower than the closing share price of the Company, one of the simple arithmetic averages of the Company's ordinary share closing price for one, three or five business days prior to the pricing data adjusted for any distribution of stock dividends, cash dividends or capital reduction, and 90% of the average price ex-dividends. The total proposed fund amounted to US$132,787 thousand (at the exchange rate of US$1:NT$30.5); the total amount of the actual offering is based on the outstanding unit and price of the GDSs. The chairman is authorized by the board of the Company to set the pricing date and subscription base date after the proposal is approved by the FSC.

As of December 31, 2019 and 2018, the balance of the Company's capital account amounted to $2,875,544 thousand and $2,075,544 thousand, divided into 287,554 thousand ordinary shares and 207,554 thousand ordinary shares, respectively, all at a par value of NT$10.

b. Capital surplus

| | December 31 | |
|---|---|---|
| | **2019** | **2018** |
| May be used to offset a deficit, distributed as cash dividends, or transferred to share capital* | | |
| Additional paid-in capital | $ 2,856,991 | $ 63,485 |
| May only be used to offset a deficit | | |
| Cash capital increase reserved for employee share options | 49,920 | - |
| Overdue dividends unclaimed | 52 | - |
| May not be used for any purpose | | |
| Employee share options | 13 | 13 |
| | $ 2,906,976 | $ 63,498 |

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

c. Retained earnings and dividend policy

The shareholders held their regular meeting on June 24, 2019 and resolved the amendments to the Company's dividend distribution policy in the Company's Articles of Incorporation (the "Articles"). Under the dividends policy as set forth in the amended Articles, if the Company has surplus earnings at the end of a fiscal year, after offsetting losses of previous years and paying taxes, the Company shall set aside as legal reserve 10% of the remaining profit. However, legal reserve need not be made when the accumulated legal reserve equals the paid-in capital of the Company. After setting aside or reversing special reserve pursuant to applicable laws and regulations and orders of competent authorities, from (1) the remaining amount plus undistributed retained earnings, or (2) the difference between the undistributed retained earnings and the losses suffered by the Company at the end of a fiscal year if the losses can be fully covered by the undistributed retained earnings, the Company shall distribute the remaining amount (if not otherwise set aside as special reserve and reserved based on business needs) and shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for bonus to shareholders. The board of directors shall be authorized to distribute the profit, the legal reserve and the capital reserve in cash upon resolution by a majority vote at a board meeting attended by two-thirds or more of the directors, and shall report the same to the shareholders' meeting. In principle, not less than 10% of the total shareholders' bonus shall be distributed in the form of cash. For the policies on distribution of employees' compensation and remuneration to directors, refer to Note 20 "Employee benefits expense".

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

The appropriations of earnings for 2018 and 2017 approved in the shareholders' meetings on June 24, 2019 and June 12, 2018, respectively, were as follows:

| | **Appropriation of Earnings** | | **Dividends Per Share (NT$)** | |
|---|---|---|---|---|
| | **For Year 2018** | **For Year 2017** | **For Year 2018** | **For Year 2017** |
| Legal reserve | $ 71,063 | $ 68,813 | | |
| Cash dividends | 518,886 | 518,886 | $ 2.50 | $ 2.50 |
| | $ 589,949 | $ 587,699 | | |

As of the date of the Company's board meeting, February 6, 2020, the appropriations of earnings for 2019 were not yet resolved.

d. Other equity items

1) The exchange differences arising on translation of foreign operations' net assets from its functional currency to the Company's presentation currency (New Taiwan dollar) are recognized directly in other comprehensive income. For the years ended December 31, 2019 and 2018, other comprehensive loss was $8,449 thousand and $10,370 thousand, respectively.

2) Unrealized valuation gains (losses) on financial assets at FVTOCI

| | For the Year Ended December 31, 2019 |
|---|---|
| Balance at January 1 | $ 179,854 |
| Recognized for the year | 39,393 |
| Cumulative unrealized gains (losses) of equity instruments transferred to retained earnings due to disposal | (49,703) |
| Balance at December 31 | $ 169,544 |

| | For the Year Ended December 31, 2018 |
|---|---|
| Balance at January 1 (IAS 39) | $ - |
| Adjustment on initial application of IFRS 9 | 379,242 |
| Balance at January 1 (IFRS 9) | 379,242 |
| Recognized for the year | (196,160) |
| Cumulative unrealized gains (losses) of equity instruments transferred to retained earnings due to disposal | (3,228) |
| Balance at December 31 | $ 179,854 |

## 19. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Income tax recognized in profit or loss

Major components of income tax expense are as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2019 | 2018 |
| Current tax | | |
| In respect of the current year | $ 68,000 | $ 75,851 |
| Income tax on unappropriated earnings | - | 8,149 |
| Adjustment for prior years' tax and effects of estimated difference | - | 4 |
| Deferred tax | | |
| In respect of the current year | 7,000 | (1,000) |
| Effect of tax rate changes | - | (12,000) |
| Income tax expense recognized in profit or loss | $ 75,000 | $ 71,004 |

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

| | For the Year Ended December 31 | |
|---|---|---|
| | 2019 | 2018 |
| Income tax expense from continuing operations at the statutory rate | $ 127,000 | $ 156,000 |
| Tax effect of adjustment item | | |
| Permanent differences | (22,000) | (27,000) |
| Tax-exempt income | - | (14,000) |
| Others | - | 8,000 |
| Current income tax | 105,000 | 123,000 |
| Effect of tax rate changes | - | (12,000) |
| Unused investment credits | (30,000) | (48,149) |
| Additional income tax on unappropriated earnings | - | 8,149 |
| Adjustment for prior year's income tax | - | 4 |
| Income tax expense recognized in profit or loss | $ 75,000 | $ 71,004 |

The Income Tax Act was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%, effective in 2018. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings was reduced from 10% to 5%.

In July 2019, the President of the ROC announced the amendments to the Statute for Industrial Innovation, which stipulate that the amounts of unappropriated earnings in 2018 and thereafter that are reinvested in the construction or purchase of certain assets or technologies are allowed as deduction when computing the income tax on unappropriated earnings. The Company has already deducted the amount of capital expenditure from the unappropriated earnings in 2018 that was reinvested when calculating the tax on unappropriated earnings for the year ended December 2019.

As the shareholders have not yet resolved the appropriation of earnings for 2019, the potential income tax consequences of the 2019 unappropriated earnings are not reliably determinable.

c. Current tax liabilities

| | December 31 | |
|---|---|---|
| | 2019 | 2018 |
| Income tax payable | $ 68,556 | $ 83,748 |

d. Deferred income tax assets

| | December 31 | |
|---|---|---|
| | 2019 | 2018 |
| Deferred income tax assets | | |
| Allowance for inventory valuation and obsolescence loss and others | $ 73,000 | $ 80,000 |

e. Income tax assessments

The Company's tax returns through 2017 have been assessed by the tax authorities.

f. Information about investment credits

The Company applies the Statute for Industrial Innovation Article 10, and up to 10% of its R&D expenses may be credited against the profit-seeking enterprise income tax payable in each of the three years following the then current year.

## 20. EMPLOYEE BENEFITS EXPENSE, DEPRECIATION AND AMORTIZATION

| | For the Year Ended December 31 | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | | 2018 | | |
| | Classified as Operating Costs | Classified as Operating Expenses | Total | Classified as Operating Costs | Classified as Operating Expenses | Total |
| Employee benefits expense | | | | | | |
| Short-term employment benefits | $ 711,338 | $ 1,160,186 | $ 1,871,524 | $ 727,045 | $ 1,108,670 | $ 1,835,715 |
| Post-employment benefits | 30,792 | 50,678 | 81,470 | 31,212 | 47,505 | 78,717 |
| Remuneration to directors | - | 1,920 | 1,920 | - | 10,325 | 10,325 |
| Compensation cost of employee share options | 16,667 | 33,253 | 49,920 | - | - | - |
| Depreciation | 123,216 | 77,778 | 200,994 | 97,217 | 43,464 | 140,681 |
| Amortization | 33,506 | 42,200 | 75,706 | 33,330 | 35,188 | 68,518 |

According to the Company's Articles, the Company accrued employees' compensation and remuneration of directors at rates of no less than 1% and no higher than 1%, respectively, of net profit before income tax, employees' compensation, and remuneration of director.

The employees' compensation and remuneration of directors for the years ended December 31, 2019 and 2018, which were approved by the Company's board of directors on February 6, 2020 and February 1, 2019, respectively, are as follows:

| | For the Year Ended December 31 | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| | Amount | % | Amount | % |
| Employees' cash compensation | $ 40,868 | 6 | $ 50,428 | 6 |
| Remuneration of directors | 6,811 | 1 | 8,405 | 1 |

If there is a change in the amounts after the annual financial statements were authorized for issue, the differences are recorded as a change in accounting estimate. There was no difference between the actual amounts of employees' compensation and remuneration to directors and the amounts recognized in the financial statements for the years ended December 31, 2018 and 2017.

Information on the employees' compensation and remuneration to directors resolved by the Company's Board of Directors in 2020 and 2019 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

## 21. SHARE-BASED PAYMENT ARRANGEMENTS

The Company's board of directors resolved to reserve 10% of the shares from the issuance of 80,000 thousand shares approved by the FSC on August 26, 2019 to be subscribed for by its employees. The number of shares subscribed for by the employees was affirmed on September 3, 2019. The fair value of such share options subscribed for by the Company's employees on the grant date was measured using the Black-Scholes Option Pricing Model and amounted to $49,920 thousand which was recorded as compensation costs with a corresponding increase in capital surplus.

a. As of December 31, 2019, the Company's Share-based payments agreements are as follows:

| Agreement | Grant Date | Number of Shares Grant | Vesting Conditions |
|---|---|---|---|
| Cash capital increase reserved for employee share options | 2019.9.3 | 8,000 thousand shares | Vested immediately |

b. The fair value of share options acquired by employees on grant day, September 3, 2019, was measured by using Black-Scholes Option Pricing Model. Relevant information is as follows:

| Stock Price (NT$) | Exercise Price (NT$) | Expected Price Volatility | Expected Vesting Period | Expected Dividend Yield Rate | Risk-free Interest Rate | Fair Value Per Share (NT$) |
|---|---|---|---|---|---|---|
| $50.8 | $45 | 32.61% | 46 days | 0.00% | 0.43% | $6.24 |

## 22. EARNINGS PER SHARE

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

| | Amounts (Numerator) | Shares (Denominator) (In Thousands) | EPS (NT$) |
|---|---|---|---|
| For the year ended December 31, 2019 | | | |
| Net profit | $ 558,459 | | |
| Basic EPS | | | |
| Earnings used in the computation of basic EPS | 558,459 | 220,888 | $ 2.53 |
| Effect of potentially dilutive ordinary shares | | | |
| Employee's compensation | - | 874 | |
| Diluted EPS | | | |
| Earnings used in the computation of diluted EPS | $ 558,459 | 221,762 | $ 2.52 |

| | Amounts (Numerator) | Shares (Denominator) (In Thousands) | EPS (NT$) |
|---|---|---|---|
| For the year ended December 31, 2018 | | | |
| Net profit | $ 710,633 | | |
| Basic EPS | | | |
| Earnings used in the computation of basic EPS | 710,633 | 207,554 | $ 3.42 |
| Effect of potentially dilutive ordinary shares | | | |
| Employee's compensation | - | 1,270 | |
| Diluted EPS | | | |
| Earnings used in the computation of diluted EPS | $ 710,633 | 208,824 | $ 3.40 |

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

## 23. CAPITAL MANAGEMENT

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

## 24. FINANCIAL INSTRUMENT

a. Categories of financial instruments

| | December 31 | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial assets | | | | |
| Financial assets at amortized cost (Note 1) | $ 5,683,512 | $ 5,683,512 | $ 1,998,044 | $ 1,998,044 |
| Financial assets at FVTPL | | | | |
| Derivative financial assets | 6,037 | 6,037 | 763 | 763 |
| Financial assets at FVTOCI | | | | |
| Investment in equity instruments | 1,056,690 | 1,056,690 | 493,166 | 493,166 |
| Financial liabilities | | | | |
| Financial liabilities at amortized cost (Note 2) | 2,658,233 | 2,658,233 | 1,807,074 | 1,807,074 |

Note 1: The balance includes financial assets at amortized cost, which includes cash and cash equivalents, notes and accounts receivable (including related parties), other receivables and refundable deposits.

Note 2: The balance includes financial liabilities at amortized cost, which includes accounts payable, other payables, long-term loans and deposits received.

b. Fair value information

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

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

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

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

2) Fair value measurements recognized in the balance sheets

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

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

c) Domestic unlisted equity instruments at FVTOCI were all measured based on Level 3 fair value. Fair values of such equity instruments were determined using discounted cash flow of income approach and comparable listed company approach, by referring to strike price of similar business in active market, implied value multiple of the price and relevant information. Significant unobservable inputs included P/E ratio, value multiple and market liquidity discount. As the discounted cash flow method was used, the discount rate used for lack of marketability was 29%; a 1% increase in such discount rate will decrease the fair value of investments by $9,122 thousand assuming all the other variables are held constant.

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

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

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

Fair value hierarchy

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets at FVTPL | | | | |
| Derivative financial assets | $ - | $ 6,037 | $ - | $ 6,037 |
| Financial assets at FVTOCI | | | | |
| Domestic listed shares and emerging market shares | $ 485 | $ - | $ - | $ 485 |
| Domestic unlisted shares | $ - | $ - | $ 1,056,205 | $ 1,056,205 |

| | December 31, 2018 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets at FVTPL | | | | |
| Derivative financial assets | $ - | $ 763 | $ - | $ 763 |
| Financial assets at FVTOCI | | | | |
| Domestic listed shares and emerging market shares | $ 74,433 | $ - | $ - | $ 74,433 |
| Domestic unlisted shares | $ - | $ - | $ 418,733 | $ 418,733 |

5) Reconciliation of Level 3 fair value measurements of financial assets

The financial assets measured at Level 3 fair value were financial assets at FVTPL and equity investments classified as financial assets at FVTOCI. Reconciliations for the years ended December 31, 2019 and 2018 were as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2019 | 2018 |
| Balance, beginning of period | $ 418,733 | $ 454,657 |
| Additions | 630,000 | - |
| Recognized in other comprehensive income | 41,872 | (32,424) |
| Proceeds from return of capital of investments | (4,000) | (3,500) |
| Effect of exchange rate changes | (30,400) | - |
| Balance, end of period | $ 1,056,205 | $ 418,733 |

c. Financial risk management objectives and policies

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

1) Market risk

The Company's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Company entered into foreign exchange forward contracts to hedge the exchange rate risk arising on the export business.

a) Foreign currency risk

The Company has foreign currency denominated transactions, which expose the Company to foreign currency risk. Exchange rate exposures are managed within approved policy parameters utilizing foreign exchange forward contracts.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the end of the year are set out in Note 30.

The sensitivity analysis included only outstanding foreign currency denominated monetary items at the end of the reporting period and assuming an increase in net income and equity if New Taiwan dollars strengthen by 1% against foreign currencies. For a 1% weakening of New Taiwan dollars against the relevant currency, there would be impact on net income in the amounts of $3,770 thousand and $4,069 thousand decrease for the years ended December 31, 2019 and 2018, respectively. The amounts used in the 1% weakening of New Taiwan dollars against the relevant currency did not consider the impact of hedge contracts and hedged item.

b) Interest rate risk

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

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

| | December 31 | |
|---|---|---|
| | **2019** | **2018** |
| Cash flow interest rate risk | | |
| Financial assets | $ 281,713 | $ 105,566 |
| Financial liabilities | 500,000 | - |

The sensitivity analysis of cash flows based on the Company's exposure to interest rates of variable-rate derivative instruments at the end of the year showed that if market interest rates increased by 1%, the Company's cash (outflows) inflows for the years ended December 31, 2019 and 2018 would have increased by $(2,183) thousand and $1,056 thousand, respectively.

2) Credit risk

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

3) Liquidity risk

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

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

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | **Within 1 Year** | **1-2 Years** | **Over 2 Years** | **Total** |
| Non-derivative financial liabilities | | | | |
| Non-interest bearing | $ 2,153,501 | $ - | $ - | $ 2,153,501 |
| Lease liabilities | 59,362 | 58,874 | 215,919 | 334,155 |
| Variable interest rate liabilities | - | - | 500,000 | 500,000 |
| | $ 2,212,863 | $ 58,874 | $ 715,919 | $ 2,987,656 |

Additional information about the maturity analysis for lease liabilities:

| | **Less than 2 Years** | **2-5 Years** | **5-10 Years** | **10-15 Years** | **Total** |
|---|---|---|---|---|---|
| Non-derivative financial liabilities | | | | | |
| Lease liabilities | $ 118,236 | $ 132,911 | $ 77,281 | $ 5,727 | $ 334,155 |

| | December 31, 2018 | | | |
|---|---|---|---|---|
| | **Within 1 Year** | **1-2 Years** | **Over 2 Years** | **Total** |
| Non-derivative financial liabilities | | | | |
| Non-interest bearing | $ 1,802,659 | $ - | $ - | $ 1,802,659 |

## 25. RELATED PARTY TRANSACTIONS

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

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

b. Operating activities

| | For the Year Ended December 31 | |
|---|---|---|
| | 2019 | 2018 |
| 1) Operating revenue | | |
| Subsidiary | | |
| NTHK | $ 3,792,364 | $ 3,790,977 |
| Others | 126,467 | 122,169 |
| Related party in substance | 246,391 | 247,388 |
| Associate | 90,302 | 85,611 |
| | $ 4,255,524 | $ 4,246,145 |
| 2) Purchases of goods | | |
| Parent company | $ 131,874 | $ 103,274 |
| 3) Manufacturing expenses | | |
| Parent company | $ 33 | $ - |
| 4) Selling expenses | | |
| Subsidiary | $ 5,078 | $ 2,092 |
| Parent company | 44 | - |
| Associate | 15 | 2 |
| | $ 5,137 | $ 2,094 |
| 5) General and administrative expenses | | |
| Subsidiary | | |
| NTIL | $ 55,613 | $ 49,582 |
| Others | 38,049 | 34,202 |
| Related party in substance | 10,780 | 10,538 |
| Parent company | 7,043 | 7,818 |
| | $ 111,485 | $ 102,140 |
| 6) Research and development expenses | | |
| Subsidiary | | |
| NTIL | $ 742,819 | $ 604,928 |
| NTCA | 275,223 | 257,911 |
| Parent company | 1,031 | 453 |
| | $ 1,019,073 | $ 863,292 |

| | For the Year Ended December 31 | |
|---|---|---|
| | 2019 | 2018 |
| 7) Dividend income | | |
| Related party in substance | | |
| United Industrial Gases Co., Ltd. | $ 62,858 | $ 57,570 |
| Nyquest Technology Co., Ltd. | 4,006 | 9,926 |
| | $ 66,864 | $ 67,496 |
| 8) Other income | | |
| Related party in substance | $ 183 | $ 197 |

| | December 31 | |
|---|---|---|
| | 2019 | 2018 |
| 9) Accounts receivable due from related parties | | |
| Subsidiary | | |
| NTHK | $ 56,121 | $ 233,440 |
| Others | 21,171 | 36,282 |
| Related party in substance | 45,903 | 44,298 |
| Associate | 21,491 | 18,008 |
| | $ 144,686 | $ 332,028 |
| 10) Other receivables | | |
| Associate | $ 41 | $ 7 |
| Parent company | - | 347 |
| | $ 41 | $ 354 |
| 11) Refundable deposits | | |
| Parent company | $ 1,780 | $ - |
| Related party in substance | 1,722 | 1,722 |
| | $ 3,502 | $ 1,722 |
| 12) Accounts payable to related parties | | |
| Parent company | $ 24,535 | $ 15,700 |
| 13) Other payables | | |
| Subsidiary | | |
| NTIL | $ 154,348 | $ 100,770 |
| Others | 5,137 | 1,553 |
| Parent company | 2,740 | 3,215 |
| | $ 162,225 | $ 105,538 |

| | December 31 | |
|---|---|---|
| | 2019 | 2018 |
| 14) Guarantee deposits | | |
| Parent company | $ 545 | $ 545 |

The sales and purchase prices and collection and payment terms with related parties were not significantly different from those with third parties. For other related party transactions, price and terms were determined in accordance with mutual agreement.

c. Lease arrangements

| | December 31, 2019 |
|---|---|
| 1) Lease liabilities | |
| Parent company | $ 59,750 |
| Related party in substance | 32,869 |
| | $ 92,619 |

| | For the Year Ended December 31, 2019 |
|---|---|
| 2) Finance costs | |
| Related party in substance | $ 604 |
| Parent company | 53 |
| | $ 657 |

d. Lease arrangements - Company is lessor/Sublease arrangements

Sublease arrangements under operating leases

For the year ended December 31, 2019, the Company subleases its assets under operating leases to WEC and SYI with lease terms 3 years.

1) The balance of operating lease receivables was as follows:

| Related Party Category | December 31, 2019 |
|---|---|
| Parent company | $ 434 |
| Subsidiary | 5 |
| | $ 439 |

2) Future lease payment receivables are as follows:

| Related Party Category | December 31, 2019 |
|---|---|
| Parent company | $ 11,430 |
| Subsidiary | 150 |
| | $ 11,580 |

3) Lease income was as follows:

| Related Party Category | For the Year Ended December 31, 2019 |
|---|---|
| Parent company | $ 4,003 |
| Subsidiary | 60 |
| | $ 4,063 |

e. Endorsements and guarantees

As of December 31, 2019, the chairman of the Company is a joint guarantor of the land-leasing from Taiwan Sugar Corporation. Refer to Note 13.

f. Compensation of key management personnel

| | For the Year Ended December 31 | |
|---|---|---|
| | 2019 | 2018 |
| Short-term employee benefits | $ 56,364 | $ 58,161 |
| Compensation costs of employee share options | 1,916 | - |
| Post-employment benefits | 1,354 | 1,261 |
| | $ 59,634 | $ 59,422 |

The remuneration of directors and key executives, as determined by the remuneration committee, was based on the performance of individuals and market trends.

## 26. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

Refer to Note 6.

## 27. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

a. As of December 31, 2019 and 2018, the amounts available under unused letters of credit were approximately JPY13,200 thousand and US$180 thousand, respectively.

b. Microchip Technology Inc. (a listed company in the United States) filed a first amended complaint in January 2019, which alleges that the Company and NTCA infringed six patents of Microchip Technology Inc. The parties were given 90 days to reach an out-of-court settlement but no agreement was reached. The case is proceeding in the United States District Court for the Northern District of California where the Company and NTCA filed their statement of defense. The case is still in its initial stages; hence, the possible impact on the Company's business and finance is not yet determinable.

## 28. SIGNIFICANT CONTRACTS

On November 28, 2019, the Company's board of directors resolved to acquire the semiconductor business of Panasonic Corporation. Consequently, the Company and Panasonic Corporation reached an agreement and signed a contract for the Company's acquisition of the semiconductor business of Panasonic Corporation. Both parties will obtain approval from their government authorities and estimate to complete the contract settlement in June 2020. The total contract amount is US$250,000 thousand (approximately NT$7,627,500 thousand), which will be adjusted on or after the settlement in accordance with the regulated price formula in the contract.

## 29. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

On February 6, 2020, Winbond Electronics Co. reassigned Yuan-Mou Su as its legal representative in the Company. The Company held the board of directors' meeting and resolved Yuan-Mou Su as the chairman on the same day.

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

The Company's significant financial assets and liabilities denominated in foreign currencies aggregated by the foreign currencies other than functional currency of the Company and the related exchange rates between foreign currencies and respective functional currency were as follows:

| | December 31 | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | | 2018 | | |
| | Foreign Currencies (Thousand) | Exchange Rate | New Taiwan Dollars (Thousand) | Foreign Currencies (Thousand) | Exchange Rate | New Taiwan Dollars (Thousand) |
| Financial assets | | | | | | |
| Monetary items | | | | | | |
| USD | $ 40,234 | 29.98 | $ 1,206,220 | $ 31,570 | 30.715 | $ 969,674 |
| ILS | 14,058 | 8.6652 | 121,813 | 12,375 | 8.1494 | 100,846 |
| JPY | 15,093 | 0.276 | 4,166 | 1,576 | 0.2782 | 438 |
| EUR | 27 | 33.59 | 891 | 83 | 35.20 | 2,905 |
| Investments accounted for using equity method | | | | | | |
| USD | 21,648 | 29.98 | 649,011 | 14,831 | 30.715 | 455,532 |
| INR | 52,861 | 0.4205 | 22,228 | 49,650 | 0.4387 | 21,781 |
| Financial liabilities | | | | | | |
| Monetary items | | | | | | |
| USD | 26,123 | 29.98 | 783,180 | 17,674 | 30.715 | 542,864 |
| ILS | 17,812 | 8.6652 | 154,348 | 12,365 | 8.1494 | 100,770 |
| JPY | 62,389 | 0.276 | 17,219 | 26,267 | 0.2782 | 7,307 |
| EUR | 157 | 33.59 | 5,281 | 536 | 35.20 | 18,868 |

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

| | For the Year Ended December 31 | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| Foreign Currencies | Exchange Rate | Net Foreign Exchange Gains/(Losses) | Exchange Rate | Net Foreign Exchange Gains/(Losses) |
| USD | 30.91 (USD:NTD) | $ (1,107) | 30.150 (USD:NTD) | $ 16,900 |
| ILS | 8.6732 (ILS:NTD) | (1,088) | 8.3914 (ILS:NTD) | (2,705) |
| EUR | 34.61 (EUR:NTD) | 345 | 35.61 (EUR:NTD) | (22) |
| JPY | 0.2837 (JPY:NTD) | 290 | 0.273 (JPY:NTD) | (200) |
| | | $ (1,560) | | $ 13,973 |

## 31. SEGMENT INFORMATION

The Company has provided the financial information of the operating segments in the consolidated financial statements. Therefore, these financial statements do not provide such information.