# REALTEK SEMICONDUCTOR CORPORATION
# AND SUBSIDIARIES
# CONSOLIDATED FINANCIAL STATEMENTS AND
# REPORT OF INDEPENDENT ACCOUNTANTS
# DECEMBER 31, 2018 AND 2017

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For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

PWCR18000297

To the Board of Directors and Shareholders of Realtek Semiconductor Corporation

## *Opinion*

We have audited the accompanying consolidated balance sheets of Realtek Semiconductor Corporation and its subsidiaries (the "Group") as at December 31, 2018 and 2017, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the reports of other independent accountants (please refer to the *Other matters* section of our report), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

## *Basis for opinion*

We conducted our audits in accordance with the "Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants" and generally accepted auditing standards in the Republic of China ("ROC GAAS"). Our responsibilities under those standards are further described in the Independent Accountant's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. Based on our audits and the report of the other independent accountants, 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 judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

## *Evaluation of inventories*

Description

Refer to Note 4(14) of the consolidated financial statements for inventory evaluation policies, Note 5(2) for uncertainty of accounting estimates and assumptions of inventory evaluation and Note 6(6) for the details of inventories.

The Group is primarily engaged in researching, developing, manufacturing, selling of various integrated circuits and related application software. Inventories are stated at the lower of cost and net realizable value. Due to the balances of inventories are significant to the financial statements and the rapid technological changes in the industry, there is a higher risk of decline in market value and obsolescence of inventories. Thus, we considered the evaluation of inventories as one of the key audit matters.

How our audit addressed the matter

We performed the following key audit procedures in respect of the above key audit matter:

1. Obtained an understanding of accounting policies on the provision of allowance for inventory valuation losses and assessed the reasonableness and the consistency with comparative period(s).
2. Validated the accuracy of inventory aging report, as well as sampled and confirmed the consistency of quantities and amounts with detailed inventory listing, verified dates of movements with supporting documents and ensured the proper categorization of inventory aging report.
3. Evaluated and confirmed the reasonableness of net realizable value for inventories through validating respective supporting documents.

## *Audit of cash in banks*

Description

Refer to Note 4(6) of the consolidated financial statements for accounting policies and Note 6(1) for the details of cash and cash equivalents.

The amount of the Group’s cash and cash equivalents is significant to the consolidated financial statements, and the nature and usage of those cash and cash equivalents varies. The cash in banks are deposited with various domestic and foreign financial institutions and have high inherent risk. It is also subject to judgement as to whether certain deposits fulfill the criteria of short-term, highly liquid investments which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Thus, audit of cash in bank was considered as one of the key audit matters.

<u>How our audit addressed the matter</u>

We performed the following key audit procedures in respect of the above key audit matter:

1. Obtained detailed listings of cash in banks. Sent confirmation letters to all financial institutions and reviewed special terms and agreements in order to ensure the existence and rights and obligations of cash in banks.
2. Obtained an understanding of procedures for preparation and review of bank reconciliations, including validating unusual reconciling items.
3. Performed physical count of petty cash and time deposits, including validating whether time deposits fulfill the criteria of short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
4. Sampled and validated significant cash transactions from bank accounts frequently used, including obtaining an understanding of the purposes of those bank accounts and vouching related supporting documents.

## *Other matter – Reference to audits of other independent accountants*

We did not audit the financial statements of certain consolidated subsidiaries and investments accounted for using the equity method. Those financial statements were audited by other independent accountants, whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included in the financial statements and the information on the consolidated subsidiaries and investments accounted for using the equity method were based solely on the reports of other independent accountants. Total assets of those consolidated subsidiaries amounted to NT$6,207,867 thousand and NT$6,689,960 thousand, constituting 10.66% and 12.79% of the consolidated total assets as of December 31, 2018 and 2017, respectively, and total operating revenues of NT$0 thousand and NT$0 thousand, both constituting 0% of the consolidated total operating revenues for the years then ended. Furthermore, according to the reports of other independent accountants, comprehensive losses of those investments accounted for under the equity method amounted to NT$41,330 thousand and NT$41,729 thousand, respectively, and balances of these investments as of December 31, 2018 and 2017 amounted to NT$261,628 thousand and NT$281,002 thousand, respectively.

### *Other matter – Parent company only financial reports*

We have audited and expressed an unqualified opinion on the parent company only financial statements of Realtek Semiconductor Corporation as at and for the years ended December 31, 2018 and 2017.

### *Responsibilities of management and those charged with governance for the consolidated financial statements*

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

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

Those charged with governance, including the Audit Committee, are responsible for overseeing the Group's financial reporting process.

### *Independent accountant's responsibilities for the audit of the consolidated financial statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a 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 ROC GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ROC GAAS, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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.

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|---|---|
| Hsueh, Seou-Hung | Li, Tien-Yi |

For and on behalf PricewaterhouseCoopers, Taiwan
March 21, 2019

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REALTEK SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

| | Assets | Notes | December 31, 2018 AMOUNT | % | December 31, 2017 AMOUNT | % |
|---|---|---|---|---|---|---|
| | **Current assets** | | | | | |
| 1100 | Cash and cash equivalents | 6(1) | $ 4,309,651 | 7 | $ 9,594,356 | 18 |
| 1110 | Financial assets at fair value through profit or loss - current | 6(2) | 1,321,103 | 2 | 675,891 | 1 |
| 1136 | Financial assets at amortised cost - current | 6(4) and 8 | 31,286,209 | 54 | - | - |
| 1147 | Investment in debt instruments without active market - current | 12(4) | - | - | 24,370,143 | 47 |
| 1170 | Accounts receivable, net | 6(5) | 5,647,722 | 10 | 3,087,958 | 6 |
| 1180 | Accounts receivable, net - related parties | 6(5) and 7 | 1,772,071 | 3 | 1,094,853 | 2 |
| 1200 | Other receivables | | 657,190 | 1 | 435,109 | 1 |
| 130X | Inventories, net | 6(6) | 5,862,005 | 10 | 5,468,167 | 10 |
| 1410 | Prepayments | | 297,327 | 1 | 269,909 | 1 |
| 1470 | Other current assets | | - | - | 96,154 | - |
| 11XX | **Total current assets** | | 51,153,278 | 88 | 45,092,540 | 86 |
| | **Non-current assets** | | | | | |
| 1517 | Financial assets at fair value through other comprehensive income - non-current | 6(3) | 1,651,072 | 3 | - | - |
| 1523 | Available-for-sale financial assets - non-current | 12(4) | - | - | 717,745 | 1 |
| 1543 | Financial assets carried at cost - non-current | 12(4) | - | - | 811,496 | 2 |
| 1550 | Investments accounted for under the equity method | 6(7) | 261,628 | - | 281,002 | 1 |
| 1600 | Property, plant and equipment, net | 6(8) | 3,316,578 | 6 | 3,162,949 | 6 |
| 1760 | Real estate investment, net | 6(9) | 54,868 | - | 60,254 | - |
| 1780 | Intangible assets | 6(10) | 1,686,249 | 3 | 2,078,355 | 4 |
| 1840 | Deferred income tax assets | 6(26) | 78,472 | - | 65,551 | - |
| 1900 | Other non-current assets | 6(11) | 50,169 | - | 41,021 | - |
| 15XX | **Total non-current assets** | | 7,099,036 | 12 | 7,218,373 | 14 |
| 1XXX | **Total assets** | | $ 58,252,314 | 100 | $ 52,310,913 | 100 |

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REALTEK SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

| | Liabilities and Equity | Notes | December 31, 2018 AMOUNT | % | December 31, 2017 AMOUNT | % |
|---|---|---|---|---|---|---|
| | **Current liabilities** | | | | | |
| 2100 | Short-term borrowings | 6(12) | $ 14,526,311 | 25 | $ 18,052,624 | 34 |
| 2130 | Contract liabilities - current | 6(20) | 148,696 | - | - | - |
| 2150 | Notes payable | | 8,657 | - | 8,631 | - |
| 2170 | Accounts payable | | 5,635,986 | 10 | 4,577,341 | 9 |
| 2180 | Accounts payable - related parties | 7 | 249,869 | 1 | 291,755 | - |
| 2200 | Other payables | 6(13) | 7,542,208 | 13 | 6,094,786 | 12 |
| 2220 | Other payables - related parties | 7 | 69,047 | - | 39,924 | - |
| 2230 | Current income tax liabilities | | 601,614 | 1 | 342,557 | 1 |
| 2300 | Other current liabilities | 6(20) | 3,719,866 | 6 | 113,043 | - |
| 21XX | **Total current liabilities** | | 32,502,254 | 56 | 29,520,661 | 56 |
| | **Non-current liabilities** | | | | | |
| 2550 | Provisions - non-current | 6(15) | 999,868 | 2 | 901,430 | 2 |
| 2570 | Deferred income tax liabilities | | 22,310 | - | 21,749 | - |
| 2600 | Other non-current liabilities | 6(14) | 80,983 | - | 7,961 | - |
| 25XX | **Total non-current liabilities** | | 1,103,161 | 2 | 931,140 | 2 |
| 2XXX | **Total liabilities** | | 33,605,415 | 58 | 30,451,801 | 58 |
| | **Equity** | | | | | |
| | **Share capital** | 6(16) | | | | |
| 3110 | Common shares | | 5,080,955 | 9 | 5,065,062 | 10 |
| | **Capital surplus** | 6(17) | | | | |
| 3200 | Capital surplus | | 3,236,659 | 5 | 3,558,856 | 7 |
| | **Retained earnings** | 6(18) | | | | |
| 3310 | Legal reserve | | 4,467,099 | 8 | 4,127,884 | 8 |
| 3320 | Special reserve | | 600,443 | 1 | - | - |
| 3350 | Undistributed earnings | | 10,850,172 | 19 | 9,698,159 | 19 |
| | **Other equity** | 6(19) | | | | |
| 3400 | Other equity interest | | 401,964 | - | ( 600,443) | ( 2) |
| 31XX | **Equity attributable to owners of the parent company** | | 24,637,292 | 42 | 21,849,518 | 42 |
| 36XX | **Non-controlling interest** | | 9,607 | - | 9,594 | - |
| 3XXX | **Total equity** | | 24,646,899 | 42 | 21,859,112 | 42 |
| 3X2X | **Total liabilities and equity** | | $ 58,252,314 | 100 | $ 52,310,913 | 100 |

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

REALTEK SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars, except earnings per share amounts)

| | Items | Notes | 2018 AMOUNT | 2018 % | 2017 AMOUNT | 2017 % |
|---|---|---|---|---|---|---|
| 4000 | **Operating revenue** | 6(20) and 7 | $ 45,805,746 | 100 | $ 41,688,021 | 100 |
| 5000 | **Operating costs** | 6(6) and 7 | ( 25,344,876) | ( 55) | ( 23,784,599) | ( 57) |
| 5950 | **Gross profit** | | 20,460,870 | 45 | 17,903,422 | 43 |
| | **Operating expenses** | 6(24)(25) and 7 | | | | |
| 6100 | Selling expenses | | ( 2,464,470) | ( 6) | ( 2,142,029) | ( 5) |
| 6200 | General and administrative expenses | | ( 1,263,689) | ( 3) | ( 1,118,403) | ( 3) |
| 6300 | Research and development expenses | | ( 12,969,972) | ( 28) | ( 11,444,977) | ( 27) |
| 6450 | Expected credit gains | 12(2) | 1,721 | - | - | - |
| 6000 | **Total operating expenses** | | ( 16,696,410) | ( 37) | ( 14,705,409) | ( 35) |
| 6500 | **Other income and expenses - net** | 6(9) | 6,298 | - | 6,224 | - |
| 6900 | **Operating income** | | 3,770,758 | 8 | 3,204,237 | 8 |
| | **Non-operating income and expenses** | | | | | |
| 7010 | Other income | 6(21) | 1,128,673 | 2 | 869,141 | 2 |
| 7020 | Other gains and losses | 6(22) | ( 58,536) | - | ( 251,337) | ( 1) |
| 7050 | Finance costs | 6(23) | ( 140,387) | - | ( 154,769) | - |
| 7060 | Share of profit of associates and joint ventures accounted for under equity method | 6(7) | ( 43,307) | - | ( 40,919) | - |
| 7000 | **Total non-operating income and expenses** | | 886,443 | 2 | 422,116 | 1 |
| 7900 | **Profit before income tax, net** | | 4,657,201 | 10 | 3,626,353 | 9 |
| 7950 | Income tax expense | 6(26) | ( 306,420) | ( 1) | ( 234,193) | ( 1) |
| 8200 | **Net income for the year** | | $ 4,350,781 | 9 | $ 3,392,160 | 8 |

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REALTEK SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars, except earnings per share amounts)

| | Items | Notes | 2018 AMOUNT | 2018 % | 2017 AMOUNT | 2017 % |
|---|---|---|---|---|---|---|
| | **Other comprehensive income, net** | 6(19) | | | | |
| | **Components of other comprehensive income that will not be reclassified to profit or loss** | | | | | |
| 8311 | Losses on remeasurements of defined benefit plans | | ($ 75,809) | - | $ - | - |
| 8316 | Unrealised losses from investments in equity instruments measured at fair value through other comprehensive income | | ( 165,659) | - | - | - |
| 8320 | Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss | | 1,977 | - | - | - |
| 8310 | **Components of other comprehensive income that will not be reclassified to profit or loss** | | ( 239,491) | - | - | - |
| | **Components of other comprehensive income that will be reclassified to profit or loss** | | | | | |
| 8361 | Cumulative translation differences of foreign operation | | 942,974 | 2 | ( 2,111,302) | ( 5) |
| 8362 | Unrealised gain on valuation of available-for-sale financial assets | | - | - | 110,120 | - |
| 8370 | Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss | | - | - | ( 810) | - |
| 8360 | **Total components of other comprehensive income that will be reclassified to profit or loss** | | 942,974 | 2 | ( 2,001,992) | ( 5) |
| 8300 | **Other comprehensive income (loss), net** | | $ 703,483 | 2 | ($ 2,001,992) | ( 5) |
| 8500 | **Total comprehensive income for the year** | | $ 5,054,264 | 11 | $ 1,390,168 | 3 |
| | **Profit attributable to:** | | | | | |
| 8610 | Equity holders of the parent company | | $ 4,350,768 | 9 | $ 3,392,153 | 8 |
| 8620 | Non-controlling interest | | 13 | - | 7 | - |
| | **Profit for the year** | | $ 4,350,781 | 9 | $ 3,392,160 | 8 |
| | **Total comprehensive income:** | | | | | |
| 8710 | Equity holders of the parent company | | $ 5,054,251 | 11 | $ 1,390,161 | 3 |
| 8720 | Non-controlling interest | | 13 | - | 7 | - |
| | **Total comprehensive income for the year** | | $ 5,054,264 | 11 | $ 1,390,168 | 3 |
| | **Earnings per share (in dollars)** | | | | | |
| 9750 | **Basic earnings per share** | 6(27) | $ 8.57 | | $ 6.71 | |
| 9850 | **Diluted earnings per share** | 6(27) | $ 8.40 | | $ 6.57 | |

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

REALTEK SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

| | | Equity attributable to owners of the parent | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Retained earnings | | | Other equity interest | | | | | |
| | Notes | Share capital - common stock | Capital surplus | Legal reserve | Special reserve | Undistributed earnings | Financial statements translation differences of foreign operations | Unrealised gains (losses) from financial assets measured at fair value through other comprehensive income | Unrealised gain or loss on available-for-sale financial assets | Total | Non-controlling interest | Total equity |
| 2017 | | | | | | | | | | | | |
| Balance at January 1, 2017 | | $ 5,049,513 | $ 3,910,428 | $ 3,823,896 | $ - | $ 8,629,799 | $ 1,298,139 | $ - | $ 103,410 | $ 22,815,185 | $ 9,587 | $ 22,824,772 |
| Net income for the year | | - | - | - | - | 3,392,153 | - | - | - | 3,392,153 | 7 | 3,392,160 |
| Other comprehensive income (loss) | 6(19) | - | - | - | - | - | ( 2,111,302 ) | - | 109,310 | ( 2,001,992 ) | - | ( 2,001,992 ) |
| Total comprehensive income | | - | - | - | - | 3,392,153 | ( 2,111,302 ) | - | 109,310 | 1,390,161 | 7 | 1,390,168 |
| Distribution of 2016 earnings | | | | | | | | | | | | |
| Legal reserve | | - | - | 303,988 | - | ( 303,988 ) | - | - | - | - | - | - |
| Cash dividends | 6(18) | - | - | - | - | ( 2,019,805 ) | - | - | - | ( 2,019,805 ) | - | ( 2,019,805 ) |
| Employees' compensation transferred to common stock | 6(17) | 15,549 | 145,386 | - | - | - | - | - | - | 160,935 | - | 160,935 |
| Cash dividends from capital surplus | 6(17) | - | ( 504,951 ) | - | - | - | - | - | - | ( 504,951 ) | - | ( 504,951 ) |
| Changes in equity of associates accounted for using equity method | 6(17) | - | 7,993 | - | - | - | - | - | - | 7,993 | - | 7,993 |
| Balance at December 31, 2017 | | $ 5,065,062 | $ 3,558,856 | $ 4,127,884 | $ - | $ 9,698,159 | ($ 813,163 ) | $ - | $ 212,720 | $ 21,849,518 | $ 9,594 | $ 21,859,112 |
| 2018 | | | | | | | | | | | | |
| Balance at January 1, 2018 | | $ 5,065,062 | $ 3,558,856 | $ 4,127,884 | $ - | $ 9,698,159 | ($ 813,163 ) | $ - | $ 212,720 | $ 21,849,518 | $ 9,594 | $ 21,859,112 |
| Modified retrospective approach adjustment | 6(19) | - | - | - | - | 103,142 | - | 435,835 | ( 212,720 ) | 326,257 | - | 326,257 |
| Balance at January 1, after adjustments | | 5,065,062 | 3,558,856 | 4,127,884 | - | 9,801,301 | ( 813,163 ) | 435,835 | - | 22,175,775 | 9,594 | 22,185,369 |
| Net income for the year | | - | - | - | - | 4,350,768 | - | - | - | 4,350,768 | 13 | 4,350,781 |
| Other comprehensive income (loss) | 6(19) | - | - | - | - | ( 75,809 ) | 942,974 | ( 163,682 ) | - | 703,483 | - | 703,483 |
| Total comprehensive income | | - | - | - | - | 4,274,959 | 942,974 | ( 163,682 ) | - | 5,054,251 | 13 | 5,054,264 |
| Distribution of 2017 earnings | | | | | | | | | | | | |
| Legal reserve | | - | - | 339,215 | - | ( 339,215 ) | - | - | - | - | - | - |
| Special reserve | | - | - | - | 600,443 | ( 600,443 ) | - | - | - | - | - | - |
| Cash dividends | 6(18) | - | - | - | - | ( 2,286,430 ) | - | - | - | ( 2,286,430 ) | - | ( 2,286,430 ) |
| Employees' compensation transferred to common stock | 6(17) | 15,893 | 163,692 | - | - | - | - | - | - | 179,585 | - | 179,585 |
| Cash dividends from capital surplus | 6(17) | - | ( 508,095 ) | - | - | - | - | - | - | ( 508,095 ) | - | ( 508,095 ) |
| Changes in equity of associates accounted for using equity method | 6(17) | - | 22,005 | - | - | - | - | - | - | 22,005 | - | 22,005 |
| Cash dividends returned | 6(17) | - | 201 | - | - | - | - | - | - | 201 | - | 201 |
| Balance at December 31, 2018 | | $ 5,080,955 | $ 3,236,659 | $ 4,467,099 | $ 600,443 | $ 10,850,172 | $ 129,811 | $ 272,153 | $ - | $ 24,637,292 | $ 9,607 | $ 24,646,899 |

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

REALTEK SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

| | Notes | 2018 | 2017 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | $ 4,657,201 | $ 3,626,353 |
| Adjustments | | | |
| Adjustments to reconcile profit (loss) | | | |
| Depreciation | 6(24) | 544,084 | 493,822 |
| Amortization | 6(24) | 994,852 | 1,060,853 |
| Expected credit gains | 12(2) | ( 1,721 ) | - |
| Provision for doubtful accounts | | - | 19,424 |
| Interest expense | 6(23) | 140,387 | 154,769 |
| Interest income | 6(21) | ( 989,290 ) | ( 722,436 ) |
| Dividend income | 6(21) | ( 32,942 ) | ( 20,571 ) |
| Loss (gain) on financial assets at fair value through profit or loss | 6(22) | 19,240 | ( 18,142 ) |
| Share of loss of associates and joint ventures accounted for using equity method | 6(7) | 43,307 | 40,919 |
| Gain on disposal of property, plant and equipment | 6(22) | ( 133 ) | ( 12,633 ) |
| Gain on disposal of available-for-sale financial assets | 6(22) | - | ( 15,879 ) |
| Other intangible assets transferred expenses | | 7,698 | 18,203 |
| Changes in operating assets and liabilities | | | |
| Changes in operating assets | | | |
| Financial assets at fair value through profit or loss - current | | ( 583,466 ) | ( 141,600 ) |
| Accounts receivable, net | | 23,602 | ( 41,266 ) |
| Accounts receivable, net - related parties | | ( 495,111 ) | ( 466,189 ) |
| Other receivables, net | | ( 25,846 ) | ( 28,412 ) |
| Inventories | | ( 349,516 ) | ( 1,015,543 ) |
| Prepayments | | ( 27,418 ) | ( 171,634 ) |
| Changes in operating liabilities | | | |
| Notes payable | | 26 | 3,862 |
| Accounts payable | | 1,058,645 | 1,397 |
| Accounts payable - related parties | | ( 41,886 ) | 22,381 |
| Other payables | | 1,514,253 | 511,416 |
| Other payables - related parties | | 29,123 | ( 7,622 ) |
| Contract liabilities - current | | 45,527 | - |
| Provisions - non-current | 6(15) | 98,438 | 56,025 |
| Advance receipts | | 6,203 | 29,833 |
| Other current liabilities | | 939,774 | ( 653 ) |
| Accrued pension obligations | | ( 2,507 ) | ( 3,427 ) |

(Continued)

REALTEK SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

| | Notes | 2018 | 2017 |
|---|---|---|---|
| Cash inflow generated from operations | | $ 7,572,524 | $ 3,373,250 |
| Receipt of interest | | 793,055 | 725,848 |
| Interest paid | | ( 138,521 ) | ( 152,595 ) |
| Income taxes paid | | ( 66,250 ) | ( 208,619 ) |
| Receipt of dividend | | 32,942 | 20,571 |
| Net cash flows from operating activities | | 8,193,750 | 3,758,455 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds from disposal of available-for-sale financial assets | | - | 27,188 |
| Acquisition of investments in debt instrument without active market | | - | ( 24,348,243 ) |
| Acquisition of amortised cost of a financial asset | | ( 6,946,509 ) | - |
| Proceeds from disposal of amortised cost of a financial asset | | 30,254 | - |
| Proceeds from disposal of held-to-maturity financial assets | | - | 261,301 |
| Acquisition of financial assets at fair value through comprehensive income | | ( 28,000 ) | ( 221,000 ) |
| Acquisition of investments accounted for using equity method | | - | ( 6,699 ) |
| Proceeds from capital reduction of financial assets at cost | | - | 6,622 |
| Proceeds from capital reduction of investee accounted for using the equity method | 6(7) | - | 14,923 |
| Acquisition of property, plant and equipment | 6(28) | ( 629,854 ) | ( 476,144 ) |
| Proceeds from disposal of property, plant and equipment | | 276 | 14,440 |
| Acquisition of intangible assets | 6(28) | ( 592,220 ) | ( 937,494 ) |
| Increase in refundable deposits | | ( 11,072 ) | ( 281 ) |
| Decrease in other current assets | | - | 687,435 |
| Decrease in other non-current assets | | 1,924 | - |
| Net cash flows used in investing activities | | ( 8,175,201 ) | ( 24,977,952 ) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Decrease in short-term borrowings | 6(29) | ( 3,526,313 ) | ( 2,398,609 ) |
| Guarantee deposits received | 6(29) | ( 278 ) | ( 851 ) |
| Cash dividends paid | | ( 2,794,525 ) | ( 2,524,756 ) |
| Cash dividends returned | | 201 | - |
| Net cash flows used in financing activities | | ( 6,320,915 ) | ( 4,924,216 ) |
| Effect of exchange rate | | 1,017,661 | ( 2,136,176 ) |
| Net decrease in cash and cash equivalents | | ( 5,284,705 ) | ( 28,279,889 ) |
| Cash and cash equivalents at beginning of year | | 9,594,356 | 37,874,245 |
| Cash and cash equivalents at end of year | | $ 4,309,651 | $ 9,594,356 |

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

REALTEK SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT AS OTHERWISE INDICATED)

## 1. HISTORY AND ORGANISATION

Realtek Semiconductor Corporation (the "Company") was incorporated as a company limited by shares on October 21, 1987 and commenced commercial operations in March 1988. The Company was based in Hsinchu Science-Based Industrial Park since October 28, 1989. The Company and its subsidiaries (collectively referred herein as the "Group") are engaged in the research, development, design, testing, and sales of ICs and application softwares for these products.

## 2. THE DATE OF AUTHORISATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORISATION

These consolidated financial statements were authorised for issuance by the Board of Directors on March 21, 2019.

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

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards ("IFRSs") as endorsed by the Financial Supervisory Commission ("FSC")

New standards, interpretations and amendments endorsed by the FSC effective from 2018 are as follows:

| New Standards, Interpretations and Amendments | Effective date by International Accounting Standards Board |
|---|---|
| Amendments to IFRS 2, 'Classification and measurement of share-based payment transactions' | January 1, 2018 |
| Amendments to IFRS 4, 'Applying IFRS 9, Financial instruments with IFRS 4, Insurance contracts' | January 1, 2018 |
| IFRS 9, 'Financial instruments' | January 1, 2018 |
| IFRS 15, 'Revenue from contracts with customers' | January 1, 2018 |
| Amendments to IFRS 15, 'Clarifications to IFRS 15, Revenue from contracts with customers' | January 1, 2018 |
| Amendments to IAS 7, 'Disclosure initiative' | January 1, 2017 |
| Amendments to IAS 12, 'Recognition of deferred tax assets for unrealised | January 1, 2017 |
| Amendments to IAS 40, 'Transfers of investment property' | January 1, 2018 |
| IFRIC 22, 'Foreign currency transactions and advance consideration' | January 1, 2018 |

| New Standards, Interpretations and Amendments | Effective date by International Accounting Standards Board |
| --- | --- |
| Annual improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 1, ‘First-time adoption of International Financial Reporting Standards’ | January 1, 2018 |
| Annual improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 12, ‘Disclosure of interests in other entities’ | January 1, 2017 |
| Annual improvements to IFRSs 2014-2016 cycle - Amendments to IAS 28, ‘Investments in associates and joint ventures’ | January 1, 2018 |

Except for the following, the above standards and interpretations have no significant impact to the Group’s financial condition and financial performance based on the Group’s assessment.

A. IFRS 9, ‘Financial instruments’

(a) Classification of debt instruments is driven by the entity’s business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset at amortised cost. Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present subsequent changes in the fair value of an investment in an equity instrument that is not held for trading in other comprehensive income.

(b) The impairment losses of debt instruments are assessed using an ‘expected credit loss’ approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognise 12-month expected credit losses or lifetime expected credit losses (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance). The Group shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.

(c) The Group has elected not to restate prior period financial statements using the modified retrospective approach under IFRS 9. For details of the significant effect as at January 1, 2018, please refer to Note 12(4)B.

B. IFRS 15, ‘Revenue from contracts with customers’

(a) IFRS 15, ‘Revenue from contracts with customers’ replaces IAS 11, ‘Construction contracts’, IAS 18, ‘Revenue’ and relevant interpretations. According to IFRS 15, revenue is recognised when a customer obtains control of promised goods or services. A customer obtains control of goods or services when a customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

Step 1: Identify contracts with customer.

Step 2: Identify separate performance obligations in the contract(s).

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price.

Step 5: Recognise revenue when the performance obligation is satisfied.

Further, IFRS 15 includes a set of comprehensive disclosure requirements that requires an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

(b) The Group has elected not to restate prior period financial statements and recognised the cumulative effect of initial application as retained earnings at January 1, 2018, using the modified retrospective approach under IFRS 15. The Group applied retrospectively IFRS 15 only to incomplete contracts as of January 1, 2018, by adopting an optional transition expedient. The significant effects of adopting the modified transition as of January 1, 2018 are summarised below:

Consolidated balance sheet

| Affected items | 2017 version IFRSs amount | Effect of adoption of new standards | 2018 version IFRSs amount | Remark |
|---|---|---|---|---|
| January 1, 2018 | | | | |
| Accounts receivable-allowance for sales returns and discounts | ($ 2,763,852) | $ 2,763,852 | $ - | i(i) |
| Total affected assets | ($ 2,763,852) | $ 2,763,852 | $ - | |
| Contract liabilities | $ - | ($ 103,169) | ($ 103,169) | i(ii) |
| Advance sales receipts | ( 103,169) | 103,169 | - | i(ii) |
| Refund liabilities - current | - | ( 2,763,852) | ( 2,763,852) | i(i) |
| Total affected liabilities | ($ 103,169) | ($ 2,763,852) | ($ 2,867,021) | |

i. Presentation of assets and liabilities in relation to contracts with customers

In line with IFRS 15 requirements, the Group changed the presentation of certain accounts in the balance sheet as follows:

(i) Under IFRS 15, liabilities in relation to expected volume discounts and refunds to customers are recognised as refund liabilities (shown as other current liabilities), but were previously presented as accounts receivable - allowance for sales returns and discounts in the balance sheet. As of January 1, 2018, the balance amounted to $2,763,852.

(ii) Under IFRS 15, liabilities in relation to sales contracts are recognised as contract liabilities, but were previously presented as advance sales receipts in the balance sheet. As of January 1, 2018, the balance amounted to $103,169.

ii. Please refer to Note 12(5) for other disclosures in relation to the first application of IFRS 15.

C. Amendments to IAS 7, 'Disclosure initiative'

This amendment requires that an entity shall provide more disclosures related to changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Group has provided additional disclosure to explain the changes in liabilities arising from financing activities, as described in Note 6(29).

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Group

New standards, interpretations and amendments endorsed by the FSC effective from 2019 are as follows:

| New Standards, Interpretations and Amendments | Effective date by International Accounting Standards Board |
|---|---|
| Amendments to IFRS 9, 'Prepayment features with negative compensation' | January 1, 2019 |
| IFRS 16, 'Leases' | January 1, 2019 |
| Amendments to IAS 19, 'Plan amendment, curtailment or settlement' | January 1, 2019 |
| Amendments to IAS 28, 'Long-term interests in associates and joint ventures' | January 1, 2019 |
| IFRIC 23, 'Uncertainty over income tax treatments' | January 1, 2019 |
| Annual improvements to IFRSs 2015-2017 cycle | January 1, 2019 |

Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment. The quantitative impact will be disclosed when the assessment is complete.

IFRS 16, 'Leases'

IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. The standard requires lessees to recognise a 'right-of-use asset' and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.

The Group expects to recognise the lease contract of lessees in line with IFRS 16. However, the Group does not intend to restate the financial statements of prior period (referred herein as the "modified retrospective approach"). On January 1, 2019, it is expected that 'right-of-use asset' and lease liability will be increased by $1,048,256 and $1,048,256, respectively.

(3) IFRSs issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs as endorsed by the FSC are as follows:

| New Standards, Interpretations and Amendments | Effective date by International Accounting Standards Board |
|---|---|
| Amendments to IAS 1 and IAS 8, 'Disclosure Initiative-Definition of Material' | January 1, 2020 |
| Amendments to IFRS 3, 'Definition of a business' | January 1, 2020 |
| 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 International Accounting Standards Board |
| IFRS 17, 'Insurance contracts' | January 1, 2021 |

The above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

The consolidated financial statements of the Group have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers", International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs")

(2) Basis of preparation

A. Except for the following items, the consolidated financial statements have been prepared under the historical cost convention:

(a) Financial assets (including derivative instruments) at fair value through profit or loss.

(b) Financial assets and liabilities at fair value through other comprehensive income/Available-for-sale financial assets measured at fair value.

(c) Defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation.

B. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

C. In adopting IFRS 9 and IFRS 15 effective January 1, 2018, the Group has elected to apply modified retrospective approach whereby the cumulative impact of the adoption was recognised as retained earnings or other equity as of January 1, 2018 and the financial statements for the year ended December 31, 2017 were not restated. The financial statements for the year ended December 31, 2017 were prepared in compliance with International Accounting Standard 39 (‘IAS 39’), International Accounting Standard 18 (‘IAS 18’) and related financial reporting interpretations. Please refer to Notes 12(4) and (5) for details of significant accounting policies and details of significant accounts.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

(a) All subsidiaries are included in the Group’s consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.

(b) Inter-company transactions, balances and unrealised gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

(c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

(d) Changes in a parent’s ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity.

(e) When the Group loses control of a subsidiary, the Group remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognised in profit or loss. All amounts previously recognised in other comprehensive income in relation to the subsidiary are reclassified to profit or loss on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Group loses control of a subsidiary, all gains or losses previously recognised in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.

B. Subsidiaries included in the consolidated financial statements:

| Name of investor | Name of subsidiary | Main business activities | Ownership (%) December 31, 2018 | Ownership (%) December 31, 2017 | Description |
|---|---|---|---|---|---|
| Realtek Semiconductor Corporation | Leading Enterprises Limited | Investment holdings | 100% | 100% | |
| Realtek Semiconductor Corporation | Amber Universal Inc. | 〃 | 100% | 100% | |
| Realtek Semiconductor Corporation | Realtek Singapore Private Limited | ICs manufacturing, design, research, development, sales, and marketing | 89% | 89% | Note 1 |
| Realtek Semiconductor Corporation | Bluocean Inc. | Investment holdings | 100% | 100% | |
| Realtek Semiconductor Corporation | Talent Eagle Enterprise Inc. | 〃 | 100% | 100% | |
| Realtek Semiconductor Corporation | Realtek Investment Singapore Private Limited | 〃 | 100% | 100% | |
| Realtek Semiconductor Corporation | Realsun Investment Co., Ltd. | 〃 | 100% | 100% | |
| Realtek Semiconductor Corporation | Hung-wei Venture Capital Co., Ltd. | 〃 | 100% | 100% | |
| Realtek Semiconductor Corporation | Realking Investments Limited | 〃 | 100% | 100% | |
| Realtek Semiconductor Corporation | Realsun Technology Corporation | ICs manufacturing, design, research, development, sales, and marketing | 100% | 100% | |

| Name of investor | Name of subsidiary | Main business activities | Ownership (%) December 31, 2018 | Ownership (%) December 31, 2017 | Description |
|---|---|---|---|---|---|
| Realtek Semiconductor Corporation | Bobitag Inc. | Manufacture and installation of computer equipment and wholesale, retail and related service of electronic materials and information / software | 67% | 67% | |
| Leading Enterprises Limited | Realtek Semiconductor (Japan) Corp. | ICs design,sales and consultancy | 100% | 100% | |
| Leading Enterprises Limited | Circon Universal Inc. | Investment holdings | 100% | 100% | |
| Leading Enterprises Limited | Realtek Singapore Private Limited | ICs manufacturing, design, research, development, sales, and marketing | 11% | 11% | Note 1 |
| Amber Universal Inc. | Realtek Semiconductor (HK) Limited | Information services and technical support | 100% | 100% | |
| Amber Universal Inc. | Realtek Semiconductor (Shen Zhen) Corp. | R&D and technical support | 100% | 100% | |
| Empsonic Enterprises Inc. | Realsil Microelectronics Corp. | 〃 | 100% | 100% | |
| Realtek Singapore Private Limited | Cortina Access Inc. | R&D and information services | 100% | 100% | |
| Realtek Singapore Private Limited | Cortina Systems Taiwan Limited | R&D and technical support | 100% | 100% | |
| Realtek Singapore Private Limited | Cortina Network Systems Shanghai Co., Ltd. | 〃 | 100% | 100% | |
| Talent Eagle Enterprise Inc. | Ubilinx Technology Inc. | R&D and information services | 100% | 100% | |
| Realtek Singapore Private Limited | Empsonic Enterprises Inc. | Investment holdings | 100% | 100% | Note 1 |

| Name of investor | Name of subsidiary | Main business activities | Ownership (%) December 31, 2018 | Ownership (%) December 31, 2017 | Description |
|---|---|---|---|---|---|
| Realtek Singapore Private Limited | Realtek Viet Nam Co., Ltd. | R&D and technical support | 100% | - | Note 2 |
| Realtek Singapore Private Limited | RayMX Microelectronics Corp. | ICs manufacturing, design, research, development, sales, and marketing | 29% | - | Note 3 |
| Realsil Microelectronics Corp. | RayMX Microelectronics Corp. | ICs manufacturing, design, research, development, sales, and marketing | 71% | - | Note 3 |

Note 1: Realtek Singapore Private Limited acquired 100% of the share capital of Empsonic Enterprises Inc. by issuing new shares to Leading Enterprises Limited. After Realtek Singapore Private Limited issued new shares, the shareholding of Realtek Semiconductor Corporation changed to 89%, while the remaining 11% of the company's equity was held by Leading Enterprises Limited.

Note 2: Realtek Viet Nam Co., Ltd. was newly established on August 9, 2018.

Note 3: RayMX Microelectronics Corp. was newly established on December 7, 2018.

C. Subsidiaries not included in the consolidated financial statements: None.

D. Adjustments for subsidiaries with different balance sheet dates: None.

E. Nature and extent of the restrictions on fund remittance from subsidiaries to the parent company: None.

(4) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in New Taiwan dollars, which is the Company's functional and presentation currency.

A. Foreign currency transactions and balances

(a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in profit or loss in the period in which they arise.

(b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.

(c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.

(d) All other foreign exchange gains and losses based on the nature of those transactions are presented in the statement of comprehensive income within 'other gains and losses'.

B. Translation of foreign operations

(a) The operating results and financial position of all the group entities, associates and joint arrangements that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

i. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;

ii. Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and

iii. All resulting exchange differences are recognised in other comprehensive income.

(b).When the foreign operation partially disposed of or sold is an associate, exchange differences that were recorded in other comprehensive income are proportionately reclassified to profit or loss as part of the gain or loss on sale. In addition, even when the Group retains partial interest in the former foreign associate after losing significant influence over the former foreign associate, such transactions should be accounted for as disposal of all interest in these foreign operations.

(c) Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing exchange rates at the balance sheet date.

(5) <u>Classification of current and non-current items</u>

A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:

(a) Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;

(b) Assets held mainly for trading purposes;

(c) Assets that are expected to be realised within twelve months from the balance sheet date;

(d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle liabilities more than twelve months after the balance sheet date.

B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

(a) Liabilities that are expected to be settled within the normal operating cycle;

(b) Liabilities arising mainly from trading activities;

(c) Liabilities that are to be settled within twelve months from the balance sheet date;

(d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(6) <u>Cash equivalents</u>

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

(7) <u>Financial assets at fair value through profit or loss</u>

<u>Effective 2018</u>

A. Financial assets at fair value through profit or loss are financial assets that are not measured at amortised cost or fair value through other comprehensive income. Financial assets at amortised cost or fair value through other comprehensive income are designated as at fair value through profit or loss at initial recognition when they eliminate or significantly reduce a measurement or recognition inconsistency.

B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using trade date accounting.

C. At initial recognition, the Group measures the financial assets at fair value and recognises the transaction costs in profit or loss. The Group subsequently measures the financial assets at fair value, and recognises the gain or loss in profit or loss.

D. The Group recognises the dividend income when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

(8) <u>Financial assets at fair value through other comprehensive income</u>

<u>Effective 2018</u>

A. Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and for which the Group has made an irrevocable election at initial recognition to recognise changes in fair value in other comprehensive income and debt instruments which meet all of the following criteria:

(a) The objective of the Group's business model is achieved both by collecting contractual cash flows and selling financial assets; and

(b) The assets' contractual cash flows represent solely payments of principal and interest.

B. On a regular way purchase or sale basis, financial assets at fair value through other comprehensive income are recognised and derecognised using trade date accounting.

C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. The Group subsequently measures the financial assets at fair value:

The changes in fair value of equity investments that were recognised in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the derecognition of the investment. Dividends are recognised as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

(9) <u>Financial assets at amortised cost</u>

<u>Effective 2018</u>

A. Financial assets at amortised cost are those that meet all of the following criteria:

(a) The objective of the Group's business model is achieved by collecting contractual cash flows.

(b) The assets' contractual cash flows represent solely payments of principal and interest.

B. On a regular way purchase or sale basis, financial assets at amortised cost are recognised and derecognised using trade date accounting.

C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. Interest income from these financial assets is included in finance income using the effective interest method. A gain or loss is recognised in profit or loss when the asset is derecognised or impaired.

D. The Group's time deposits which do not fall under cash equivalents are those with a short maturity period and are measured at initial investment amount as the effect of discounting is immaterial.

(10) <u>Accounts receivable</u>

A. Accounts receivable entitle the Group a legal right to receive consideration in exchange for transferred goods or rendered services.

B. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(11) <u>Impairment of financial assets</u>

For debt instruments measured at fair value through other comprehensive income and financial assets at amortised cost, at each reporting date, the Group recognises the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognizes the impairment provision for the lifetime expected credit losses (ECLs) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts. On the other hand, for accounts receivable that do not contain a significant financing component, the Group recognises the impairment provision for lifetime ECLs.

(12) Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to receive the cash flows from the financial asset expire.

(13) Operating leases (lessor)

Lease income from an operating lease (net of any incentives given to the lessee) is recognised in profit or loss and collects the rental over the lease term.

(14) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (allocated based on normal operating capacity). It excludes borrowing costs. The item by item approach is used in applying the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(15) Investments accounted for using equity method / associates

A. Associates are all entities over which the Group has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 percent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognised at cost.

B. The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

C. When changes in an associate's equity do not arise from profit or loss or other comprehensive income of the associate and such changes do not affect the Group's ownership percentage of the associate, the Group recognises change in ownership interests in the associate in 'capital surplus' in proportion to its ownership.

D. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

E. In the case that an associate issues new shares and the Group does not subscribe or acquire new shares proportionately, which results in a change in the Group's ownership percentage of the associate but maintains significant influence on the associate, then 'capital surplus' and 'investments accounted for under the equity method' shall be adjusted for the increase or decrease of its share of equity interest. If the above condition causes a decrease in the Group's ownership percentage of the associate, in addition to the above adjustment, the amounts previously recognised in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately on the same basis as would be required if the relevant assets or liabilities were disposed of.

F. Upon loss of significant influence over an associate, the Group remeasures any investment retained in the former associate at its fair value. Any difference between fair value and carrying amount is recognised in profit or loss.

G. When the Group disposes its investment in an associate and loses significant influence over this associate, the amounts previously recognised in other comprehensive income in relation to the associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it retains significant influence over this associate, the amounts previously recognised in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the aforementioned approach.

(16) Property, plant and equipment

A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.

B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

C. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of the fixed assets are as follows: buildings - 10~55 years and other fixed assets - 3~5 years.

(17) Operating leases (lessee)

Payments made under an operating lease (net of any incentives received from the lessor) are recognised in profit or loss and pay the rental over the lease term.

(18) Investment property

An investment property is stated initially at its cost and measured subsequently using the cost model. Except for land, investment property is depreciated on a straight-line basis over its estimated useful life of 20 years.

(19) Intangible assets

A. Goodwill arises in a business combination accounted for by applying the acquisition method.

B. Other intangible assets

Separately acquired intangible assets with a finite useful life are stated at cost, net of accumulated amortisation and accumulated impairment. Intangible assets acquired in a business combination are recognised at fair value at acquisition date. The amortisation amounts of separately and consolidated acquired intangible assets were amortised on a straight-line basis over their estimated useful lives of 2-5 years.

(20) Impairment of non-financial assets

A. The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. When the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortised historical cost would have been if the impairment had not been recognised.

B. The recoverable amounts of goodwill is evaluated periodically. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment loss of goodwill previously recognised in profit or loss shall not be reversed in the following years.

(21) Borrowings

Borrowings comprise long-term and short-term bank borrowings. Borrowings are recognised initially at fair value, net of transaction costs incurred.

(22) Notes and accounts payable

A. Accounts payable are liabilities for purchases of raw materials, goods or services and notes payable are those resulting from operating and non-operating activities.

B. The short-term notes and accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(23) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability specified in the contract is discharged or cancelled or expires.

(24) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation on the balance sheet date, which is discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation.

(25) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognised as expense in that period when the employees render service.

B. Pensions

(a) Defined contribution plans

For defined contribution plans, the contributions are recognised as pension expense when they are due on an accrual basis. Prepaid contributions are recognised as an asset to the extent of a cash refund or a reduction in the future payments.

(b) Defined benefit plans

i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Company in current period or prior periods. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability; when there is no deep market in high-quality corporate bonds, the Company uses interest rates of government bonds (at the balance sheet date) instead.

ii. Remeasurements arising on defined benefit plans are recognised in other comprehensive income in the period in which they arise and are recorded as retained earnings.

C. Employees’ compensation and directors’ and supervisors’ remuneration

Employees’ compensation and directors’ and supervisors’ remuneration are recognised as expense and liability, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employee compensation is distributed by shares, the Group calculates the number of shares based on the closing price at the previous day of the Board meeting resolution.

(26) Income tax

A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.

B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

C. Deferred tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

D. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred tax assets are reassessed.

E. A deferred tax asset shall be recognised for the carryforward of unused tax credits resulting from research and development expenditures to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilised.

F. If a change in tax rate is enacted or substantively enacted, the Group recognises the effect of the change immediately in the interim period in which the change occurs. The effect of the change on items recognised outside profit or loss is recognised in other comprehensive income or equity while the effect of the change on items recognised in profit or loss is recognised in profit or loss.

(27) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(28) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are resolved by the Company's shareholders. Cash dividends are recorded as liabilities; stock dividends are recorded as stock dividends to be distributed and are reclassified to ordinary shares on the effective date of new shares issuance.

(29) Revenue recognition

A. Sales of goods

(a) The Group manufactures and sells various integrated circuit related products. Sales are recognised when control of the products has transferred, being when the products are delivered to the customers, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied.

(b) Revenue from these sales is recognised based on the price specified in the contract. A refund liability is recognised for expected sales discounts and allowances payable to customers in relation to sales made until the end of the reporting period. As the time interval between the transfer of committed goods or service and the payment of customer does not exceed one year, the Group does not adjust the transaction price to reflect the time value of money.

(c) A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

B. Services revenue

Revenue from design, royalty and technical services is recognised after completing the services in which the services are rendered.

(30) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-Maker. The Group's Chief Operating Decision-Maker is responsible for allocating resources and assessing performance of the operating segments.

5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year; and the related information is addressed below:

(1) Critical judgements in applying the Group's accounting policies

None.

(2) Critical accounting estimates and assumptions

Evaluation of inventories

As inventories are stated at the lower of cost and net realisable value, the Group must determine the net realisable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Group evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realisable value. Such an evaluation of inventories is principally based on the demand for the products within the specified period in the future. Therefore, there might be material changes to the evaluation.

As of December 31, 2018, the carrying amount of inventories was $5,862,005.

## 6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Cash on hand and revolving funds | $ 1,819 | $ 1,727 |
| Checking accounts and demand deposits | 3,248,619 | 2,555,769 |
| Time deposits | 1,059,213 | 6,204,339 |
| Cash equivalents-bonds sold under repurchase agreement | - | 832,521 |
| Total | $ 4,309,651 | $ 9,594,356 |

The Group transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

(2) Financial assets at fair value through profit or loss

Effective 2018

| Items | December 31, 2018 |
|---|---|
| Current items: | |
| Financial assets mandatorily measured at fair value through profit or loss | |
| Listed stocks | $ 69,781 |
| Beneficiary certificates | 1,251,322 |
| | $ 1,321,103 |

A. Amounts recognised in profit or loss in relation to financial assets at fair value through profit or loss are listed below:

| | | Year ended December 31, 2018 |
|---|---|---|
| Financial assets mandatorily measured at fair value through profit or loss | | |
| Equity instruments | ($ | 27,094) |
| Beneficiary certificates | | 7,854 |
| | ($ | 19,240) |

B. The Group has no financial assets at fair value through profit or loss pledged to others.

C. Information relating to credit risk of financial assets at fair value through profit or loss is provided in Note 12(2).

D. Information on financial assets at fair value through profit or loss as of December 31, 2017 is provided in Note 12(4).

(3) Financial assets at fair value through other comprehensive income

Effective 2018

| Items | | December 31, 2018 |
|---|---|---|
| Non-current items: | | |
| Equity instruments | | |
| Listed stocks | $ | 253,908 |
| Emerging stocks | | 339,027 |
| Unlisted stocks | | 1,058,137 |
| | $ | 1,651,072 |

A. The Group has elected to classify equity instruments investments that are considered to be strategic investments as financial assets at fair value through other comprehensive income. The fair value of such investments amounted to $1,651,072 as at December 31, 2018.

B. Amounts recognised in profit or loss and other comprehensive income in relation to the financial assets at fair value through other comprehensive income are listed below:

| | | Year ended December 31, 2018 |
|---|---|---|
| Equity instruments at fair value through other comprehensive income | | |
| Fair value change recognised in other comprehensive income | $ | 165,659 |

C. The Group has no financial assets at fair value through other comprehensive income pledged to others.

D. Information relating to credit risk of financial assets at fair value through other comprehensive income is provided in Note 12(2).

E. Information on available-for-sale financial assets and financial assets at cost as of December 31, 2017 is provided in Note 12(4).

(4) Financial assets at amortised cost

Effective 2018

| Items | December 31, 2018 |
|---|---|
| Current items: | |
| Time deposits | $ 31,286,209 |

A. Details of the Group's financial assets at amortised cost pledged to others as collateral are provided in Note 8.

B. Information relating to credit risk of financial assets at amortised cost is provided in Note 12(2).

(5) Accounts receivable

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Accounts receivable | $ 5,693,973 | $ 5,717,574 |
| Accounts receivable – related parties | 1,783,992 | 1,288,881 |
| Less: allowance for sales returns and discounts | - | ( 2,763,852) |
| Less: allowance for bad debts | ( 58,172) | ( 59,792) |
| | $ 7,419,793 | $ 4,182,811 |

A. The aging analysis of accounts receivable is as follows:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| | Accounts receivable | Accounts receivable |
| Not past due | $ 7,460,264 | $ 7,006,137 |
| Up to 30 days | 17,665 | 281 |
| 91 to 180 days | - | 1 |
| Over 180 days | 36 | 36 |
| | $ 7,477,965 | $ 7,006,455 |

The above aging analysis is based on past due date.

B. The Group has no accounts receivable pledged to others.

C. Information relating to credit risk of accounts receivable is provided in Note 12(2).

(6) Inventories

| | December 31, 2018 | | |
|---|---|---|---|
| | Cost | Allowance for obsolescence and market value decline | Book value |
| Raw materials | $ 399,009 | ($ 23,147) | $ 375,862 |
| Work in process | 3,614,676 | ( 218,774) | 3,395,902 |
| Finished goods | 2,524,712 | ( 434,471) | 2,090,241 |
| Total | $ 6,538,397 | ($ 676,392) | $ 5,862,005 |

| | December 31, 2017 | | |
|---|---|---|---|
| | Cost | Allowance for obsolescence and market value decline | Book value |
| Raw materials | $ 390,835 | ($ 31,644) | $ 359,191 |
| Work in process | 2,825,615 | ( 210,859) | 2,614,756 |
| Finished goods | 2,787,259 | ( 293,039) | 2,494,220 |
| Total | $ 6,003,709 | ($ 535,542) | $ 5,468,167 |

Operating costs incurred on inventories for the years ended December 31, 2018 and 2017 were as follows:

| | Years ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Cost of inventories sold and others | $ 25,003,275 | $ 23,483,201 |
| Loss on market value decline and obsolete and slow-moving inventories | 138,066 | 168,272 |
| Loss on scrap inventory | 203,535 | 133,126 |
| | $ 25,344,876 | $ 23,784,599 |

(7) Investments accounted for using the equity method

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Technology Partner V Venture Capital Corporation | $ 36,917 | $ 44,705 |
| 5V Technologies, Taiwan Ltd. | 16,106 | 17,081 |
| Estinet Technologies Incorporation | 40,682 | 33,002 |
| Innorich Venture Capital Corp. | 167,923 | 186,214 |
| | $ 261,628 | $ 281,002 |

A. The loss on investments accounted for using equity method amounted to $43,307 and $40,919 for the years ended December 31, 2018 and 2017, respectively.

B. The Group’s held stocks in Technology Partner V Venture Capital Corporation decreased due to the return of capital in September of 2017 and the proceeds from capital returned was $14,923.

(8) Property, plant and equipment

| | Buildings | Machinery | Test equipment | Office equipment | Others | Total |
|---|---|---|---|---|---|---|
| At January 1, 2018 | | | | | | |
| Cost | $ 3,205,530 | $ 3,611,076 | $ 1,783,425 | $ 204,663 | $ 722,408 | $ 9,527,102 |
| Accumulated depreciation and impairment | ( 1,074,899) | ( 3,377,730) | ( 1,276,016) | ( 137,072) | ( 498,436) | ( 6,364,153) |
| | $ 2,130,631 | $ 233,346 | $ 507,409 | $ 67,591 | $ 223,972 | $ 3,162,949 |
| 2018 | | | | | | |
| Opening net book amount | $ 2,130,631 | $ 233,346 | $ 507,409 | $ 67,591 | $ 223,972 | $ 3,162,949 |
| Additions | 6,238 | 124,429 | 455,980 | 35,609 | 84,858 | 707,114 |
| Disposals | ( 9) | - | ( 37) | ( 97) | - | ( 143) |
| Reclassifications | 50,407 | - | - | ( 567) | ( 50,826) | ( 986) |
| Depreciation | ( 130,452) | ( 88,176) | ( 251,035) | ( 21,630) | ( 48,744) | ( 540,037) |
| Net exchange difference | ( 8,594) | 262 | ( 660) | ( 446) | ( 2,881) | ( 12,319) |
| Closing net book amount | $ 2,048,221 | $ 269,861 | $ 711,657 | $ 80,460 | $ 206,379 | $ 3,316,578 |
| At December 31, 2018 | | | | | | |
| Cost | $ 3,246,163 | $ 3,726,816 | $ 2,225,944 | $ 232,162 | $ 754,293 | $ 10,185,378 |
| Accumulated depreciation and impairment | ( 1,197,942) | ( 3,456,955) | ( 1,514,287) | ( 151,702) | ( 547,914) | ( 6,868,800) |
| | $ 2,048,221 | $ 269,861 | $ 711,657 | $ 80,460 | $ 206,379 | $ 3,316,578 |

| | Buildings | Machinery | Test equipment | Office equipment | Others | Total |
|---|---|---|---|---|---|---|
| At January 1, 2017 | | | | | | |
| Cost | $ 3,214,833 | $ 3,577,280 | $ 1,558,624 | $ 192,166 | $ 626,953 | $ 9,169,856 |
| Accumulated depreciation and impairment | ( 951,288) | ( 3,374,204) | ( 1,062,395) | ( 128,162) | ( 461,090) | ( 5,977,139) |
| | $ 2,263,545 | $ 203,076 | $ 496,229 | $ 64,004 | $ 165,863 | $ 3,192,717 |
| 2017 | | | | | | |
| Opening net book amount | $ 2,263,545 | $ 203,076 | $ 496,229 | $ 64,004 | $ 165,863 | $ 3,192,717 |
| Additions | - | 106,402 | 232,730 | 21,398 | 110,627 | 471,157 |
| Disposals | - | - | ( 24) | ( 1,092) | ( 691) | ( 1,807) |
| Reclassifications | - | 5,057 | 885 | - | ( 6,093) | ( 151) |
| Depreciation | ( 126,766) | ( 82,094) | ( 220,150) | ( 19,189) | ( 41,623) | ( 489,822) |
| Net exchange difference | ( 6,148) | 905 | ( 2,261) | 2,470 | ( 4,111) | ( 9,145) |
| Closing net book amount | $ 2,130,631 | $ 233,346 | $ 507,409 | $ 67,591 | $ 223,972 | $ 3,162,949 |
| At December 31, 2017 | | | | | | |
| Cost | $ 3,205,530 | $ 3,611,076 | $ 1,783,425 | $ 204,663 | $ 722,408 | $ 9,527,102 |
| Accumulated depreciation and impairment | ( 1,074,899) | ( 3,377,730) | ( 1,276,016) | ( 137,072) | ( 498,436) | ( 6,364,153) |
| | $ 2,130,631 | $ 233,346 | $ 507,409 | $ 67,591 | $ 223,972 | $ 3,162,949 |

Amount of borrowing costs capitalised as part of property, plant and equipment: None.

(9) Investment property

| | Buildings | | Buildings |
|---|---|---|---|
| At January 1, 2018 | | At January 1, 2017 | |
| Cost | $ 85,694 | Cost | $ 86,839 |
| Accumulated depreciation and impairment | ( 25,440) | Accumulated depreciation and impairment | ( 21,655) |
| | $ 60,254 | | $ 65,184 |
| 2018 | | 2017 | |
| Opening net book value | $ 60,254 | Opening net book value | $ 65,184 |
| Depreciation | ( 4,047) | Depreciation | ( 4,000) |
| Net exchange difference | ( 1,339) | Net exchange difference | ( 930) |
| Closing net book amount | $ 54,868 | Closing net book amount | $ 60,254 |
| At December 31, 2018 | | At December 31, 2017 | |
| Cost | $ 83,688 | Cost | $ 85,694 |
| Accumulated depreciation and impairment | ( 28,820) | Accumulated depreciation and impairment | ( 25,440) |
| | $ 54,868 | | $ 60,254 |

A. Rental income from the lease of the investment property and direct operating expenses arising from the investment property are shown below:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Rental income from the lease of the investment property | $ 6,298 | $ 6,224 |
| Operating expenses arising from the investment property that generated rental income during the year | $ 4,047 | $ 4,000 |

B. The Group's investment property is located in Mainland China. The fair value is based on valuation information from Information Centre of Real Estate in local governments in Mainland China and is adjusted accordingly. As of December 31, 2018 and 2017, the fair value was $136,949 and $135,348 and classified as level 3, respectively.

(10) Intangible assets

| | Computer software | Intellectual property | Goodwill | Others | Total |
|---|---|---|---|---|---|
| At January 1, 2018 | | | | | |
| Cost | $ 2,772,830 | $ 3,751,440 | $ 642,134 | $ 298,771 | $ 7,465,175 |
| Accumulated amortisation and impairment | ( 2,241,399) | ( 2,673,224) | ( 350,621) | ( 121,576) | ( 5,386,820) |
| | $ 531,431 | $ 1,078,216 | $ 291,513 | $ 177,195 | $ 2,078,355 |
| 2018 | | | | | |
| Opening net book amount | $ 531,431 | $ 1,078,216 | $ 291,513 | $ 177,195 | $ 2,078,355 |
| Additions | 460,145 | 164,064 | - | 1,800 | 626,009 |
| Transfers | 1,353 | 2,096 | - | ( 10,161) | ( 6,712) |
| Amortisation | ( 497,239) | ( 452,899) | - | ( 44,714) | ( 994,852) |
| Net exchange difference | 24 | ( 29,313) | 8,644 | 4,094 | ( 16,551) |
| Closing net book amount | $ 495,714 | $ 762,164 | $ 300,157 | $ 128,214 | $ 1,686,249 |
| At December 31, 2018 | | | | | |
| Cost | $ 3,234,611 | $ 3,911,807 | $ 650,778 | $ 298,916 | $ 8,096,112 |
| Accumulated amortisation and impairment | ( 2,738,897) | ( 3,149,643) | ( 350,621) | ( 170,702) | ( 6,409,863) |
| | $ 495,714 | $ 762,164 | $ 300,157 | $ 128,214 | $ 1,686,249 |

| | Computer software | Intellectual property | Goodwill | Others | Total |
|---|---|---|---|---|---|
| At January 1, 2017 | | | | | |
| Cost | $ 2,341,688 | $ 3,211,611 | $ 665,877 | $ 338,241 | $ 6,557,417 |
| Accumulated amortisation and impairment | ( 1,737,908) | ( 2,140,688) | ( 350,621) | ( 83,668) | ( 4,312,885) |
| | $ 603,780 | $ 1,070,923 | $ 315,256 | $ 254,573 | $ 2,244,532 |
| 2017 | | | | | |
| Opening net book amount | $ 603,780 | $ 1,070,923 | $ 315,256 | $ 254,573 | $ 2,244,532 |
| Additions | 431,821 | 540,591 | - | 2,096 | 974,508 |
| Transfers | 151 | - | - | ( 18,203) | ( 18,052) |
| Amortisation | ( 503,998) | ( 511,796) | - | ( 45,059) | ( 1,060,853) |
| Net exchange difference | ( 323) | ( 21,502) | ( 23,743) | ( 16,212) | ( 61,780) |
| Closing net book amount | $ 531,431 | $ 1,078,216 | $ 291,513 | $ 177,195 | $ 2,078,355 |
| At December 31, 2017 | | | | | |
| Cost | $ 2,772,830 | $ 3,751,440 | $ 642,134 | $ 298,771 | $ 7,465,175 |
| Accumulated amortisation and impairment | ( 2,241,399) | ( 2,673,224) | ( 350,621) | ( 121,576) | ( 5,386,820) |
| | $ 531,431 | $ 1,078,216 | $ 291,513 | $ 177,195 | $ 2,078,355 |

Details of amortisation on intangible assets are as follows:

| | Years ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Operating costs | $ 3,907 | $ 2,314 |
| Operating expenses | 990,945 | 1,058,539 |
| | $ 994,852 | $ 1,060,853 |

(11) Long-term prepaid rents (shown as 'Other non-current assets')

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Land-use right | $ 22,027 | $ 23,047 |

The Group has separately signed contracts of land-use right in Chuan Xue with the Bureau of Land Resources and Housing Management of Suzhou on November 22, 2004 and March 25, 2005, respectively. The lease terms are 70 and 50 years, respectively. The rents were paid in full at the time the contracts were signed. The rental expense of $489 and $484 was recognised for the years ended December 31, 2018 and 2017, respectively.

(12) Short-term borrowings

| Type of borrowings | December 31, 2018 | Interest rate range | Collateral |
|---|---|---|---|
| Bank borrowings | | | |
| Unsecured borrowings | $ 14,526,311 | 0.67%~4.16% | None |

| Type of borrowings | December 31, 2017 | Interest rate range | Collateral |
|---|---|---|---|
| Bank borrowings | | | |
| Unsecured borrowings | $ 18,052,624 | 0.75%~1.99% | None |

Interest expense recognised in profit or loss amounted to $140,387 and $154,769 for the years ended December 31, 2018 and 2017, respectively.

(13) Other payables

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Accrued salaries | $ 3,390,433 | $ 2,544,189 |
| Payable for employees' compensation | 1,884,203 | 1,802,539 |
| Other accrued expenses | 1,235,690 | 983,647 |
| Payables on equipment | 110,401 | 33,141 |
| Payables on software and intellectual property | 684,438 | 650,649 |
| Others | 237,043 | 80,621 |
| | $ 7,542,208 | $ 6,094,786 |

(14) <u>Pension</u>

A. (a) The Company and its domestic subsidiaries have a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company and its domestic subsidiaries contribute monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company and its domestic subsidiaries would assess the balance in the aforementioned labor pension reserve account by December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method to the employees expected to qualify for retirement in the following year, the Company and its domestic subsidiaries will make contributions for the deficit by next March.

(b) The amounts recognised in the balance sheet are determined as follows:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Present value of defined benefit obligations | ($ 568,382) | ($ 536,470) |
| Fair value of plan assets | 495,415 | 473,679 |
| Net liability in the balance sheet | ($ 72,967) | ($ 62,791) |

(c) Movement in net defined benefit liabilities are as follows:

| | Present value of defined benefit obligations | Fair value of plan assets | Net defined benefit liability |
|---|---|---|---|
| Year ended December 31, 2018 | | | |
| At January 1 | ($ 536,470) | $ 473,679 | ($ 62,791) |
| Current service cost | ( 2,745) | - | ( 2,745) |
| Interest (expense) income | ( 6,675) | 5,927 | ( 748) |
| | ( 545,890) | 479,606 | ( 66,284) |
| Remeasurements: | | | |
| Return on plan assets (excluding amounts included in interest income or expense) | - | 13,319 | 13,319 |
| Change in demographic assumptions | ( 1,639) | - | ( 1,639) |
| Change in financial assumptions | ( 8,197) | - | ( 8,197) |
| Experience adjustments | ( 16,166) | - | ( 16,166) |
| | ( 26,002) | 13,319 | ( 12,683) |
| Pension fund contribution | - | 6,000 | 6,000 |
| Paid pension | 3,510 | ( 3,510) | - |
| At December 31 | ($ 568,382) | $ 495,415 | ($ 72,967) |

| | Present value of defined benefit obligations | Fair value of plan assets | Net defined benefit liability |
|---|---|---|---|
| Year ended December 31, 2017 | | | |
| At January 1 | ($ 513,556) | $ 475,586 | ($ 37,970) |
| Current service cost | ( 2,808) | - | ( 2,808) |
| Interest (expense) income | ( 6,993) | 6,570 | ( 423) |
| | ( 523,357) | 482,156 | ( 41,201) |
| Remeasurements: | | | |
| Return on plan assets (excluding amounts included in interest income or expense) | - | ( 2,011) | ( 2,011) |
| Change in demographic assumptions | 1,319 | - | 1,319 |
| Change in financial assumptions | 6,596 | - | 6,596 |
| Experience adjustments | ( 33,494) | - | ( 33,494) |
| | ( 25,579) | ( 2,011) | ( 27,590) |
| Pension fund contribution | - | 6,000 | 6,000 |
| Paid pension | 12,466 | ( 12,466) | - |
| At December 31 | ($ 536,470) | $ 473,679 | ($ 62,791) |

(d) The Bank of Taiwan was commissioned to manage the Fund of the Company's and domestic subsidiaries' defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks.

(e) The principal actuarial assumptions used were as follows:

| | Years ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Discount rate | 1.125% | 1.25% |
| Future salary increases | 5.25% | 5.25% |

Future mortality rate was estimated based on the 5th Taiwan Standard Ordinary Experience Mortality Table for the years ended December 31, 2018 and 2017.

Because the main actuarial assumption changed, the present value of defined benefit obligation is affected. The analysis was as follows:

| | Discount rate | | Future salary increases | |
|---|---|---|---|---|
| | Increase by 0.25% | Decrease by 0.25% | Increase by 0.25% | Decrease by 0.25% |
| December 31, 2018 | | | | |
| Effect on present value of defined benefit obligation | $ 16,573 | ($ 17,256) | ($ 16,206) | $ 15,665 |

| | Discount rate | | Future salary increases | |
|---|---|---|---|---|
| | Increase by 0.25% | Decrease by 0.25% | Increase by 0.25% | Decrease by 0.25% |
| December 31, 2017 | | | | |
| Effect on present value of defined benefit obligation | $ 16,335 | ($ 17,035) | ($ 16,020) | $ 15,461 |

The sensitivity analysis above is based on one assumption which changed while the other conditions remain unchanged. In practice, more than one assumption may change all at once. The method of analysing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

(f) Expected contributions to the defined benefit pension plans of the Group for the year ending December 31, 2019 amount to $6,000.

(g) As of December 31, 2018, the weighted average duration of the retirement plan is 14 years. The analysis of timing of the future pension payment was as follows:

| | |
|---|---|
| Within 1 year | $ 242,740 |
| 2~5 years | 93,635 |
| 5~10 years | 196,669 |
| Over 10 years | 35,519 |
| | $ 568,563 |

B. (a) Effective July 1, 2005, the Company and its domestic subsidiaries have established a defined contribution pension plan (the “New Plan”) under the Labor Pension Act (the “Act”), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company and its domestic subsidiaries contribute monthly an amount based on 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.

(b) The Company’s mainland China subsidiaries, Realsil Microelectronics Corp., Realtek Semiconductor (Shen Zhen) Corp., Cortina Network Systems Shanghai Co., Ltd., and RayMX Microelectronics Corp. have a defined contribution plan. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People’s Republic of China (PRC) are based on certain percentage of employees’ monthly salaries and wages. The contribution percentage was 20%, 17%, 21%, and 19%, respectively. Monthly contributions to an independent fund are administered by the government. Other than the monthly contributions, the Group has no further obligations.

(c) The pension costs under the defined contribution pension plans of the Group for the years ended December 31, 2018 and 2017 were $231,441 and $211,401, respectively.

(15) Provision

| | Year ended December 31, 2018 |
|---|---|
| At January 1 | $ 901,430 |
| Changes in provision | 98,438 |
| At December 31 | $ 999,868 |

As of December 31, 2018, provisions were estimated for possible infringement litigations.

(16) Share capital

A. As of December 31, 2018, the Company's authorised capital was $8,900,000, consisting of 890 million thousand shares of ordinary stock (including 80 million thousand shares reserved for employee stock options), and the paid-in capital was $5,080,955 with a par value of $10 (in dollars) per share. All proceeds from shares issued have been collected. The beginning balance and closing balance of the number of the Company's ordinary shares outstanding of the period remain the same as in previous two periods.

Unit : Thousands of shares

| | 2018 | 2017 |
|---|---|---|
| At January 1 | 506,506 | 504,951 |
| Employees' compensation transferred to common stock | 1,589 | 1,555 |
| At December 31 | 508,095 | 506,506 |

B. On January 24, 2002, the Company increased its new common stock and sold its old common stock by issuing 13,924 thousand units of GDRs for cash. Each GDR unit represents 4 common stocks, so the total common stocks issued were 55,694 thousand shares. The Company's GDRs are traded in Luxembourg stock exchange. As of December 31, 2018, the outstanding GDRs were 312 thousand units, or 1,249 thousand shares of common stock, representing 0.25% of the Company's total common stocks.

(17) Capital surplus

Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Act requires that the amount of capital surplus to be capitalised mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

| | 2018 | | | |
|---|---|---|---|---|
| | Share premium | Change in associates accounted for using equity method | Others | Total |
| At January 1 | $ 3,540,653 | $ 18,203 | $ - | $ 3,558,856 |
| Change in associates accounted for using equity method | - | 22,005 | - | 22,005 |
| Cash dividends distribution from capital surplus | ( 508,095) | - | - | ( 508,095) |
| Employees' compensation tranferred to common stock | 163,692 | - | - | 163,692 |
| Cash dividends returned | - | - | 201 | 201 |
| At December 31 | $ 3,196,250 | $ 40,208 | $ 201 | $ 3,236,659 |

| | 2017 | | |
|---|---|---|---|
| | Share premium | Change in associates accounted for using equity method | Total |
| At January 1 | $ 3,900,218 | $ 10,210 | $ 3,910,428 |
| Change in associates accounted for using equity method | - | 7,993 | 7,993 |
| Cash dividends distribution from capital surplus | ( 504,951) | - | ( 504,951) |
| Employees' compensation tranferred to common stock | 145,386 | - | 145,386 |
| At December 31 | $ 3,540,653 | $ 18,203 | $ 3,558,856 |

(18) Retained earnings

A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset prior years' operating losses and then 10% of the remaining amount shall be set aside as legal reserve, if legal reserve has accumulated to an amount equal to the paid-in capital, then legal reserve is not required to be set aside any more. Additionally, special reserve is set aside or reversed in accordance with related laws or Competent Authority. The Company should consider factors of finance, business and operations to appropriate distributable earnings for the period, and appropriate all or partial reserve in accordance with regulations and the Competent Authority. The Company's dividend policy takes into consideration the Company's future expansion plans and future cash flows. In accordance with the Company's dividend policy, cash dividends shall account for at least 10% of the total dividends distributed.

B. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.

C. In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.

D. The appropriation of 2017 and 2016 earnings had been resolved at the stockholders' meeting on June 5, 2018 and June 8, 2017, respectively. Details are summarised below:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Amount | Dividends per share (in dollars) | Amount | Dividends per share (in dollars) |
| Legal reserve | $ 339,215 | $ - | $ 303,988 | $ - |
| Special reserve | 600,443 | - | - | - |
| Cash dividends | 2,286,430 | 4.50 | 2,019,805 | 4.00 |
| Total | $ 3,226,088 | $ 4.50 | $ 2,323,793 | $ 4.00 |

E. On June 5, 2018 and June 8, 2017, the stockholders resolved during their meeting to distribute $508,095 by cash ($1.0 per share) and $504,951 by cash ($1.0 per share) from additional paid-in capital in excess of par, ordinary share, respectively.

F. For the information relating to employees' compensation and directors' remuneration, please refer to Note 6(25).

(19) Other equity items

| | 2018 | | | |
|---|---|---|---|---|
| | Unrealised gains (losses) on valuation | Available-for-sale investment | Currency translation difference | Total |
| At January 1 | $ - | $ 212,720 | ($ 813,163) | ($ 600,443) |
| Modified retrospective approach adjustment: | | | | |
| Revaluation | 538,977 | ( 212,720) | - | 326,257 |
| Revaluation transferred to retained earnings | ( 103,142) | - | - | ( 103,142) |
| Revaluation | | | | |
| –Subsidiaries | ( 165,659) | - | - | ( 165,659) |
| –Associates | 1,977 | - | - | 1,977 |
| Currency translation differences: | | | | |
| –Subsidiaries | - | - | 942,974 | 942,974 |
| At December 31 | $ 272,153 | $ - | $ 129,811 | $ 401,964 |

| | 2017 | | |
|---|---|---|---|
| | Available-for-sale investment | Currency translation difference | Total |
| At January 1 | $ 103,410 | $ 1,298,139 | $ 1,401,549 |
| Revaluation | | | |
| –Subsidiaries | 110,120 | - | 110,120 |
| –Associates | ( 810) | - | ( 810) |
| Currency translation differences: | | | |
| –Subsidiaries | - | ( 2,111,302) | ( 2,111,302) |
| At December 31 | $ 212,720 | ($ 813,163) | ($ 600,443) |

(20) Operating revenue

| | Year ended December 31, 2018 | Year ended December 31, 2017 |
|---|---|---|
| Revenue from contracts with customers | $ 45,805,746 | $ 41,688,021 |

A. Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods and services at a point in time in the following major product lines:

| Year ended December 31, 2018 | Integrated circuit products | Others | Total |
|---|---|---|---|
| Revenue from external customer contracts | $ 45,735,868 | $ 69,878 | $ 45,805,746 |
| Timing of revenue recognition | | | |
| At a point in time | $ 45,735,868 | $ 69,878 | $ 45,805,746 |

B. Contract liabilities

The Group has recognised the following revenue-related contract liabilities:

| | December 31, 2018 |
|---|---|
| Contract liabilities – advance sales receipts | $ 148,696 |

Revenue recognised that was included in the contract liability balance at the beginning of the period:

| | Year ended December 31, 2018 |
|---|---|
| Contract liabilities – advance sales receipts | $ 91,285 |

C. Refund liabilities

The Group estimates the discounts based on accumulated experience. The estimation is subject to an assessment at each reporting date.

The following refund liabilities:

| | December 31, 2018 |
|---|---|
| Refund liabilities – current | $ 3,705,665 |

D. Related disclosures on operating revenue for 2017 are provided in Note 12(5) B.

(21) Other income

| | Years ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Interest income: | | |
| Interest income from bank deposits | $ 989,290 | $ 722,436 |
| Dividend income | 32,942 | 20,571 |
| Other income | 106,441 | 126,134 |
| Total | $ 1,128,673 | $ 869,141 |

(22) Other gains and losses

| | Years ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Gains on disposal of property, plant and equipment | $ 133 | $ 12,633 |
| Gains on disposal of available-for-sale financial assets | - | 15,879 |
| Net currency exchange losses | ( 35,720) | ( 296,550) |
| (Losses) gains on financial assets at fair value through profit or loss | ( 19,240) | 18,142 |
| Other losses | ( 3,709) | ( 1,441) |
| Total | ($ 58,536) | ($ 251,337) |

(23) Finance costs

| | Years ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Interest expense | $ 140, 387 | $ 154, 769 |

(24) Expenses by nature

| | Years ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Employee benefit expenses | $ 10,831,592 | $ 9,243,349 |
| Depreciation charges on property, plant and equipment | $ 544,084 | $ 493,822 |
| Amortisation charges on intangible assets | $ 994,852 | $ 1,060,853 |

(25) Employee benefit expenses

| | Years ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Wages and salaries | $ 10,048,153 | $ 8,525,629 |
| Labor and health insurance fees | 394,056 | 365,655 |
| Pension costs | 234,934 | 214,632 |
| Other personnel expenses | 154,449 | 137,433 |
| Total | $ 10,831,592 | $ 9,243,349 |

A. In accordance with the Company's Articles of Incorporation, the Company shall appropriate no higher than 3% for directors' remuneration and no less than 1% for employees' compensation, if the Company generates profit. If the Company has accumulated deficit, earnings should be reserved to cover losses before the appropriation of directors' remuneration and employees' compensation. Aforementioned employees' compensation could be distributed by cash or stocks. Specifics of the compensation are to be determined in a board meeting that registers two-thirds of directors in attendance, and the resolution must receive support from half of participating members. The resolution should be reported to the shareholders during the shareholders' meeting.

B. The shareholders' meeting resolved on June 5, 2018 the proposal of employees' stock compensation of $179,585, employees' cash compensation of $718,338 and directors' and supervisors' remuneration of $59,862 for 2017. Employees' compensation and directors' and supervisors' remuneration of 2017 as resolved at the meeting of the Board of Directors were in agreement with those amounts recognised in the 2017 financial statements. The above employees' stock compensation was based on the closing price of $113 at the previous day of the board meeting resolution on March 8, 2018, and the total new shares issued amounted to 1,589 thousand shares.

C. The shareholders' meeting resolved on June 8, 2017 the proposal of employees' stock compensation of $160,935, employees' cash compensation of $643,738 and directors' and supervisors' remuneration of $53,645 for 2016. Employees' compensation and directors' and supervisors' remuneration of 2016 as resolved at the meeting of the Board of Directors were in agreement with those amounts recognised in the 2016 financial statements. The above employees' stock compensation was based on the closing price of $103.5 at the previous day of the board meeting resolution on April 21, 2017, and the total new shares issued amounted to 1,555 thousand shares.

D. For the years ended December 31, 2018 and 2017, employees' compensation was accrued at $1,151,674 and $897,923, respectively; directors' and supervisors' remuneration was accrued at $76,778 and $59,862, respectively. If the estimated amounts differ from the actual distribution resolved by the Board of Directors and the shareholders' meeting, the Company will recognize the change as an adjustment to income of next year.

Information about employees' compensation and directors' remuneration of the Company as resolved by the Board of Directors and the shareholders at the shareholders' meeting will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(26) Income tax

A. Income tax expense

| | Years ended December 31, 2018 | Years ended December 31, 2017 |
|---|---|---|
| Current income tax: | | |
| Current income tax on profits for the year | $ 463,769 | $ 166,986 |
| Income tax on undistributed surplus earnings | 16,607 | 71,608 |
| Prior year income tax over estimation | ( 35,671) | ( 88,357) |
| Total current income tax | 444,705 | 150,237 |
| Deferred income tax: | | |
| Origination and reversal of temporary differences | ( 12,360) | 83,956 |
| Impact of change in tax rate | ( 125,925) | - |
| Total deferred income tax | ( 138,285) | 83,956 |
| Income tax expense | $ 306,420 | $ 234,193 |

B. Reconciliation between income tax expense and accounting profit

| | Years ended December 31, 2018 | Years ended December 31, 2017 |
|---|---|---|
| Income tax calculated based on income before tax and statutory tax rate | $ 946,174 | $ 613,397 |
| Effects from tax-exempt income | ( 494,765) | ( 362,455) |
| Impact of change in tax rate | ( 125,925) | - |
| Prior year income tax over estimation | ( 35,671) | ( 88,357) |
| Income tax on undistributed surplus earnings | 16,607 | 71,608 |
| Income tax expense | $ 306,420 | $ 234,193 |

C. Amounts of deferred income tax assets or liabilities as a result of temporary differences are as follows:

| | Year ended December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | January 1 | Recognised in profit or loss | Recognised in other comprehensive income | Recognised in equity | December 31 |
| -Deferred income tax assets: | | | | | |
| Temporary differences: | | | | | |
| Unrealised loss on market price decline and obsolete and slow-moving inventories and others | $ 65,551 | $ 12,921 | $ - | $ - | $ 78,472 |
| -Deferred income tax liabilities: | | | | | |
| Temporary differences: | | | | | |
| Unrealised exchange gain | ( 21,749) | ( 561) | - | - | ( 22,310) |
| | $ 43,802 | $ 12,360 | $ - | $ - | $ 56,162 |

| | Year ended December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | January 1 | Recognised in profit or loss | Recognised in other comprehensive income | Recognised in equity | December 31 |
| -Deferred income tax assets: | | | | | |
| Temporary differences: | | | | | |
| Unrealised loss on market price decline and obsolete and slow-moving inventories and others | $ 148,821 | ($ 83,270) | $ - | $ - | $ 65,551 |
| -Deferred income tax liabilities: | | | | | |
| Temporary differences: | | | | | |
| Unrealised exchange gain | ( 21,063) | ( 686) | - | - | ( 21,749) |
| | $ 127,758 | ($ 83,956) | $ - | $ - | $ 43,802 |

D. The amounts of deductible temporary differences that are not recognised as deferred income tax assets are as follows:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Deductible temporary differences | $ 783,339 | $ 545,223 |

E. As of December 31, 2018, the Company's income tax returns through 2016 have been assessed and approved by the Tax Authority.

F. The Group's products qualify for "Regulations for Encouraging Manufacturing Enterprises and Technical Service Enterprises in the Newly Emerging, Important and Strategic Industries" and the Company is entitled to the income tax exemption for 5 consecutive years. The tax exemption period is from January 1, 2013 to December 31, 2017.

G. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China in February 7, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Group has assessed the impact of the change in income tax rate.

(27) Earnings per share

Effective January 1, 2008, as employees' compensation could be distributed in the form of stock, the diluted EPS computation shall include those estimated shares that would be increased from employees' stock compensation issuance in the weighted-average number of common shares outstanding during the reporting year, which take into account the dilutive effects of stock bonus on potential common shares. Whereas, basic EPS shall be calculated based on the weighted-average number of common shares outstanding during the reporting year that include the shares of employees' stock compensation for the appropriation of prior year earnings, which have already been resolved at the stockholders' meeting held in the reporting year. Since capitalisation of employees' compensation no longer belongs to distribution of stock dividends, the calculation of basic EPS and diluted EPS for all periods presented shall not be adjusted retroactively.

| | Year ended December 31, 2018 | | |
|---|---|---|---|
| | Amount after tax | Weighted average number of ordinary shares outstanding (shares in thousands) | Earnings per share (in dollars) |
| Basic earnings per share | | | |
| Profit attributable to ordinary shareholders of the parent | $ 4,350,768 | 507,712 | $ 8.57 |
| Diluted earnings per share | | | |
| Profit attributable to ordinary shareholders of the parent | $ 4,350,768 | 507,712 | |
| Assumed conversion of all dilutive potential ordinary shares | | | |
| Employees' compensation | - | 10,477 | |
| Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares | $ 4,350,768 | 518,189 | $ 8.40 |

| | Year ended December 31, 2017 | | |
|---|---|---|---|
| | Amount after tax | Weighted average number of ordinary shares outstanding (shares in thousands) | Earnings per share (in dollars) |
| Basic earnings per share | | | |
| Profit attributable to ordinary shareholders of the parent | $ 3,392,153 | 505,412 | $ 6.71 |
| Diluted earnings per share | | | |
| Profit attributable to ordinary shareholders of the parent | $ 3,392,153 | 505,412 | |
| Assumed conversion of all dilutive potential ordinary shares | | | |
| Employees' compensation | - | 11,106 | |
| Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares | $ 3,392,153 | 516,518 | $ 6.57 |

(28) Supplemental cash flow information

Investing activities with partial cash payments

| | Years ended December 31, 2018 | Years ended December 31, 2017 |
|---|---|---|
| Purchase of property, plant and equipment | $ 707,114 | $ 471,157 |
| Add: Opening balance of payable on equipment | 33,141 | 38,128 |
| Less: Ending balance of payable on equipment | ( 110,401) | ( 33,141) |
| Cash paid during the year | $ 629,854 | $ 476,144 |

| | Years ended December 31, 2018 | Years ended December 31, 2017 |
|---|---|---|
| Purchase of intangible assets | $ 626,009 | $ 974,508 |
| Add: Opening balance of payable on software and intellectual property | 650,649 | 613,635 |
| Less: Ending balance of payable on software and intellectual property | ( 684,438) | ( 650,649) |
| Cash paid during the year | $ 592,220 | $ 937,494 |

(29) Changes in liabilities from financing activities

| | Short-term borrowings | Guarantee deposits received | Liabilities from financing activities-gross |
|---|---|---|---|
| At January 1, 2018 | $ 18,052,624 | $ 5,165 | $ 18,057,789 |
| Changes in cash flow from financing activities | ( 3,526,313) | ( 278) | ( 3,526,591) |
| At December 31, 2018 | $ 14,526,311 | $ 4,887 | $ 14,531,198 |

## 7. RELATED PARTY TRANSACTIONS

(1) Parent and ultimate controlling party

The ultimate controlling party of the Group is the Company.

(2) Names of related parties and relationship

| Names of related parties | Relationship with the Company |
|---|---|
| G.M.I Technology Inc. | Other related party |
| Actions Semiconductor Co., Ltd. | Other related party |
| C-Media Electronics Inc. | Other related party |
| Greatek Electronics Inc. | Other related party |
| EmBestor Technology Inc. | Other related party |

(3) Significant related party transactions and balances

A. Operating revenue

| | Years ended December 31, 2018 | | Years ended December 31, 2017 | |
|---|---|---|---|---|
| Sales of goods： | | | | |
| Other related parties | | | | |
| G.M.I Technology Inc. | $ | 8,373,071 | $ | 7,196,408 |
| Others | | 442,676 | | 407,934 |
| | $ | 8,815,747 | $ | 7,604,342 |

Goods are sold based on the price lists in force and terms that would be available to third parties, and the general collection term was 30 ~ 60 days after monthly billings.

B. Processing cost

| | Years ended December 31, 2018 | | Years ended December 31, 2017 | |
|---|---|---|---|---|
| Greatek Electronics Inc. | $ | 1,087,478 | $ | 1,168,273 |

Processing cost is paid to associates on normal commercial terms and conditions, and the general payment term was 49 ~ 69 days after monthly billings.

C. Receivables from related parties

| | Years ended December 31, 2018 | | Years ended December 31, 2017 | |
|---|---|---|---|---|
| Accounts receivable： | | | | |
| Other related parties | | | | |
| G.M.I Technology Inc. | $ | 1,718,808 | $ | 1,060,501 |
| Other | | 53,263 | | 34,352 |
| | $ | 1,772,071 | $ | 1,094,853 |

Aforementioned receivables were 30 ~ 60 days after monthly billings. The receivables from related parties arise mainly from sale transactions. The receivables are unsecured in nature and bear no interest.

D. Payables to related parties:

| | Years ended December 31, 2018 | | Years ended December 31, 2017 | |
|---|---|---|---|---|
| Accounts payable： | | | | |
| Greatek Electronics Inc. | $ | 249,869 | $ | 291,755 |

The payment term above was 69 days after monthly billings. The payables to related parties arise mainly from processing cost. The payables bear no interest.

E. Other transactions and other (receivables) payables:

| | Years ended December 31, | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| | Amount | Ending balance | Amount | Ending balance |
| Other related parties- | | | | |
| Sales commissions | $ 354,542 | $ 69,047 | $ 308,518 | $ 39,924 |
| Cash dividends income | ($ 19,420) | $ - | ($ 16,989) | $ - |
| Technical royalty revenue | ($ 7,799) | $ - | ($ 3,086) | $ - |

The payment term above was 49 days after monthly billings; collection term was 30 ~ 60 days after monthly billings.

(4) Key management compensation

| | Years ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Salaries and other short-term employee benefits | $ 105,676 | $ 78,105 |
| Post-employment benefits | 2,557 | 2,020 |
| Total | $ 108,233 | $ 80,125 |

8. PLEDGED ASSETS

The Group's assets pledged as collateral are as follows:

| | Book value | | |
|---|---|---|---|
| Pledged asset | December 31, 2018 | December 31, 2017 | Purposes |
| Time deposits (shown in other current assets) | $ - | $ 60,809 | Guarantee for customs duties for the importation of materials |
| " | - | 35,345 | Guarantee for leasing land and office in Science Park |
| Time deposits (shown in financial assets at amortised cost - current) | 30,270 | - | Guarantee for customs duties for the importation of materials |
| " | 35,789 | - | Guarantee for leasing land and office in Science Park |
| | $ 66,059 | $ 96,154 | |

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

(1) Contingencies

None.

(2) Operating lease agreements

The Group leases lands and office buildings for operational needs under non-cancellable operating lease agreements. The lease terms are between 2019 and 2027. Most of the lease agreements are renewable at the market price at the end of the lease period. The Group recognised rental expense of $85,701 and $80,908 for these leases in profit or loss for the years ended December 31, 2018 and 2017, respectively.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| | December 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| No later than one year | $ | 69,071 | $ | 60,792 |
| Later than one year but not later than five years | | 149,106 | | 180,222 |
| Later than five years | | 39,910 | | 45,575 |
| | $ | 258,087 | $ | 286,589 |

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

12. OTHERS

(1) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

(2) Financial instruments

A. Financial instruments by category

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Financial assets | | |
| Financial assets at fair value through profit or loss | | |
| Financial assets mandatorily measured at fair value through profit or loss | $ 1,321,103 | $ 675,891 |
| Financial assets at fair value through other comprehensive income | | |
| Designation of equity instrument | $ 1,651,072 | $ - |
| Available-for-sale financial assets | | |
| Available-for-sale financial assets | $ - | $ 717,745 |
| Financial assets at cost | - | 811,496 |
| | $ - | $ 1,529,241 |
| Financial assets at amortised cost/Receivables | | |
| Cash and cash equivalents | $ 4,309,651 | $ 9,594,356 |
| Investments in debt instruments without active market | - | 24,370,143 |
| Financial assets at amortised cost | 31,286,209 | - |
| Accounts receivable (including related parties) | 7,419,793 | 4,182,811 |
| Other receivables (including related parties) | 657,190 | 435,109 |
| Guarantee deposits paid | 28,573 | 17,501 |
| Other current assets | - | 96,154 |
| | $ 43,701,416 | $ 38,696,074 |

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Financial liabilities | | |
| Financial liabilities at amortised cost | | |
| Short-term borrowings | $ 14,526,311 | $ 18,052,624 |
| Notes payable | 8,657 | 8,631 |
| Accounts payable (including related parties) | 5,885,855 | 4,869,096 |
| Other accounts payable (including related parties) | 7,611,255 | 6,134,710 |
| Guarantee deposits received | 4,887 | 5,165 |
| | $ 28,036,965 | $ 29,070,226 |

B. Financial risk management policies

(a) The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial position and financial performance.

(b) Risk management is carried out by a treasury department (Group treasury) under policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

i. The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD and RMB. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

ii. Management has set up a policy to require the Group to manage its foreign exchange risk against its functional currency. The Group is required to hedge its entire foreign exchange risk exposure with the Group treasury.

iii. The Group's businesses involve some functional currency operations (the Company's and certain subsidiaries' functional currency: NTD; other certain subsidiaries' functional currency: USD and RMB). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

| | December 31, 2018 | | |
|---|---|---|---|
| | Foreign currency amount (In thousands) | Exchange rate | Book value (NTD) |
| **(Foreign currency: functional currency)** | | | |
| Financial assets | | | |
| Monetary items | | | |
| USD:NTD | $ 179,859 | 30.733 | $ 5,527,618 |
| CNY:USD | 71,029 | 0.1456 | 317,942 |
| Non-monetary items | | | |
| USD:NTD | 1,159,786 | 30.733 | 35,643,714 |
| Financial liabilities | | | |
| Monetary items | | | |
| USD:NTD | 134,264 | 30.733 | 4,126,322 |

| | December 31, 2017 | | |
|---|---|---|---|
| | Foreign currency amount (In thousands) | Exchange rate | Book value (NTD) |
| **(Foreign currency: functional currency)** | | | |
| Financial assets | | | |
| Monetary items | | | |
| USD:NTD | $ 209,666 | 29.848 | $ 6,258,009 |
| CNY:USD | 445,107 | 0.1536 | 2,213,072 |
| Non-monetary items | | | |
| USD:NTD | 1,014,191 | 29.848 | 30,271,573 |
| Financial liabilities | | | |
| Monetary items | | | |
| USD:NTD | 130,771 | 29.848 | 3,903,248 |

The total exchange loss, including realised and unrealised arising from significant foreign exchange variation on the monetary items held by the Group for the years ended December 31, 2018 and 2017, amounted to $35,720 and $296,550, respectively.

Analysis of foreign currency market risk arising from significant foreign exchange variation:

| | Year ended December 31, 2018 | | |
|---|---|---|---|
| | Sensitivity analysis | | |
| | Degree of variation | Effect on profit or loss | Effect on other comprehensive income |
| **(Foreign currency: functional currency)** | | | |
| Financial assets | | | |
| Monetary items | | | |
| USD:NTD | 1% | $ 55,276 | $ - |
| CNY:USD | 1% | 3,179 | - |
| Non-monetary items | | | |
| USD:NTD | 1% | - | 356,437 |
| Financial liabilities | | | |
| Monetary items | | | |
| USD:NTD | 1% | ( 41,263) | - |

| | Year ended December 31, 2017 | | |
|---|---|---|---|
| | Sensitivity analysis | | |
| | Degree of variation | Effect on profit or loss | Effect on other comprehensive income |
| **(Foreign currency: functional currency)** | | | |
| Financial assets | | | |
| Monetary items | | | |
| USD:NTD | 1% | $ 62,580 | $ - |
| CNY:USD | 1% | 22,131 | - |
| Non-monetary items | | | |
| USD:NTD | 1% | - | 302,716 |
| Financial liabilities | | | |
| Monetary items | | | |
| USD:NTD | 1% | ( 39,032) | - |

Price risk

i. The Group's equity securities, which are exposed to price risk, are the held financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and available-for-sale financial assets.

ii. The Group's investments in equity securities comprise domestic listed and unlisted stocks. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 10% with all other variables held constant, post-tax profit for the years ended December 31, 2018 and 2017 would have decreased/increased by ($1,924) and $1,814, respectively, as a result of gains/losses on equity securities classified as at fair value through profit or loss. Other components of equity would have decreased/increased by ($16,368) and $10,931, respectively, as a result of gains/losses on equity securities classified as available-for-sale equity investment and equity investment at fair value through other comprehensive income.

Cash flow and fair value interest rate risk

The Group has no material interest rate risk.

(b) Credit risk

Effective 2018

i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms, and the contract cash flows of financial assets at amortised cost, at fair value through profit or loss and at fair value through other comprehensive income.

ii. The Group manages their credit risk taking into consideration the entire group's concern. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors.

iii. The Group adopts the assumption under IFRS 9, that is, the default occurs when the contract payments are past due over 90 days.

iv. The Group adopts the following assumption under IFRS 9 to assess whether there has been a significant increase in credit risk on that instrument since initial recognition:

If the contract payments were past due over 30 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.

v. The following indicators are used to determine whether the credit impairment of debt instruments has occurred:

(i) It becomes probable that the issuer will enter bankruptcy or other financial reorganization due to their financial difficulties;

(ii) The disappearance of an active market for that financial asset because of financial difficulties;

(iii) Default or delinquency in interest or principal repayments;

(iv) Adverse changes in national or regional economic conditions that are expected to cause a default.

vi. The Group classifies customers' accounts receivable in accordance with customer types. The Group applies the modified approach using provision matrix to estimate expected credit loss under the provision matrix basis.

vii. The Group wrote-off the financial assets, which cannot be reasonably expected to be recovered, after initiating recourse procedures. However, the Group will continue executing the recourse procedures to secure their rights.

viii. The Group used the forecastability of semiconductor industry research report to adjust historical and timely information to assess the default possibility of accounts receivable. On December 31, 2018, the provision matrix is as follows:

| | Not past due | 1~90 days past due | 180 days past due | Total |
|---|---|---|---|---|
| At December 31, 2018 | | | | |
| Expected loss rate | 0.2%~1% | 0.2%~1% | 100% | |
| Total book value | $ 7,460,264 | $ 17,665 | $ 36 | $ 7,477,965 |
| Loss allowance | $ 58,031 | $ 105 | $ 36 | $ 58,172 |

ix. Movements in relation to the Group applying the modified approach to provide loss allowance for accounts receivable are as follows:

| | 2018 |
|---|---|
| | Accounts receivable |
| At January 1_IAS 39 | $ 59,792 |
| Adjustments under new standards | - |
| At January 1_IFRS 9 | 59,792 |
| Changes in the year | ( 1,620) |
| At December 31 | $ 58,172 |

Because of macroeconomics and credit enhancement, the impairment loss for 2018 decreased by $1,721.

x. For financial assets at amortised cost, the credit rating levels are presented below:

| | December 31, 2018 | | | |
|---|---|---|---|---|
| | | Lifetime | | |
| | 12 months | Significant increase in credit risk | Impairment of credit | Total |
| Financial assets at amortised cost | | | | |
| Group 1 | $ 31,286,209 | $ - | $ - | $ 31,286,209 |

Group 1: Financial institutions of credit rating ‘A’.

xi. Credit risk information of 2017 is provided in Note 12(4)

(c) Liquidity risk

i. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group’s liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities.

ii. Group treasury invests surplus cash in interest bearing current accounts, time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts.

iii. The table below analyses the Group’s non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

Non-derivative financial liabilities:

| December 31, 2018 | Less than 1 year | Between 1 and 5 years | Over 5 years |
|---|---|---|---|
| Short-term loans | $ 14,526,311 | $ - | $ - |
| Notes payable | 8,657 | - | - |
| Accounts payable (including related parties) | 5,885,855 | - | - |
| Other payables (including related parties) | 2,336,619 | - | - |
| Guarantee deposits received | - | - | 4,887 |

Non-derivative financial liabilities:

| December 31, 2017 | Less than 1 year | Between 1 and 5 years | Over 5 years |
|---|---|---|---|
| Short-term loans | $ 18,052,624 | $ - | $ - |
| Notes payable | 8,631 | - | - |
| Accounts payable (including related parties) | 4,869,096 | - | - |
| Other payables (including related parties) | 1,787,982 | - | - |
| Guarantee deposits received | - | - | 5,165 |

iv. The Group does not expect the timing of occurrence of the cash flows estimated through the maturity date analysis will be significantly earlier, nor expect the actual cash flow amount will be significantly different.

(3) Fair value information

A. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the Group's investment in listed stocks and beneficiary certificates is included in Level 1.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of the Group's investment is included in Level 2.

Level 3: Unobservable inputs for the asset or liability. The fair value of the Group's investment in equity investment without active market is included in Level 3.

B. Fair value information of investment property at cost is provided in Note 6(9).

C. The related information of financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities is as follows:

(a) The related information of nature of the assets is as follows:

| December 31, 2018 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets | | | | |
| Recurring fair value measurement | | | | |
| Financial assets at fair value through profit or loss-current | $ 1,321,103 | $ - | $ - | $ 1,321,103 |
| Financial assets at fair value other comprehensive income | | | | |
| Equity securities | 592,935 | - | 1,058,137 | 1,651,072 |
| Total | $ 1,914,038 | $ - | $ 1,058,137 | $ 2,972,175 |

| December 31, 2017 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets | | | | |
| Recurring fair value measurement | | | | |
| Financial assets at fair value through profit or loss-current | $ 675,891 | $ - | $ - | $ 675,891 |
| Available-for-sale financial assets-equity securities | 405,061 | - | 312,684 | 717,745 |
| Total | $ 1,080,952 | $ - | $ 312,684 | $ 1,393,636 |

(b) The methods and assumptions the Group used to measure fair value are as follows:

i. The instruments the Group used market quoted prices as their fair values (that is, Level 1) are listed below by characteristics:

| | Listed shares | Closed-end fund | Opened-end fund | Government bond | Corporate bond | Convertible (exchangeable) bond |
|---|---|---|---|---|---|---|
| Market quoted price | Closing price | Closing price | Net asset value | Translation price | Weighted average quoted price | Closing price |

ii. Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques or by reference to counterparty quotes. The fair value of financial instruments measured by using valuation techniques can be referred to current fair value of instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods, including calculated by applying model using market information available at the consolidated balance sheet date.

iii. The output of valuation model is an estimated value and the valuation technique may not be able to capture all relevant factors of the Group’s financial and non-financial instruments. Therefore, the estimated value derived using valuation model is adjusted accordingly with additional inputs.

D. For the years ended December 31, 2018 and 2017, there was no transfer between Level 1 and Level 2.

E. The following chart is the movement of Level 3 for the years ended December 31, 2018 and 2017:

| | 2018 |
|---|---|
| | Non-derivative equity instrument |
| At January 1 | $ 312,684 |
| Modified retrospective adjustment | 766,919 |
| Losses recognised in other comprehensive income | ( 49,466) |
| Acquired in the period | 28,000 |
| At December 31 | $ 1,058,137 |

| | Non-derivative equity instrument |
|---|---|
| | 2017 |
| At January 1 | $ 264,536 |
| Gains recognised in other comprehensive income | 48,148 |
| At December 31 | $ 312,684 |

F. For the years ended December 31, 2018 and 2017, there was no transfer into or out from Level 3.

G. The treasury department is in charge of valuation procedures for fair value measurements being categorised within Level 3, which is to verify independent fair value of financial instruments. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the resource of information is independent, reliable and in line with other resources and represented as the exercisable price, updating inputs used to the valuation model and making any other necessary adjustments to the fair value.

H. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement:

| | Fair value at December 31, 2018 | Valuation technique | Significant unobservable input | Range (weighted average) | Relationship of inputs to fair value |
|---|---|---|---|---|---|
| Non-derivative equity instrument: | | | | | |
| Unlisted shares | $ 117,986 | Market comparable companies | Price to book ratio multiple | 2.56 | The higher the multiple, the higher the fair value |

| | Fair value at December 31, 2018 | | Valuation technique | Significant unobservable input | Range (weighted average) | Relationship of inputs to fair value |
|---|---|---|---|---|---|---|
| Unlisted shares | $ | 28,000 | The last transaction price of the non-active market | Not applicable | - | Not applicable |
| Private equity fund investment | | 912,151 | Net asset value | Not applicable | - | Not applicable |

| | Fair value at December 31, 2017 | | Valuation technique | Significant unobservable input | Range (weighted average) | Relationship of inputs to fair value |
|---|---|---|---|---|---|---|
| Non-derivative equity instrument: | | | | | | |
| Unlisted shares | $ | 312,684 | Market comparable companies | Price to book ratio multiple | 3.26 | The higher the multiple, the higher the fair value |

I. The Group has carefully assessed the valuation models and assumptions used to measure fair value; therefore, the fair value measurement is reasonable. However, use of different valuation models or assumptions may result in different measurement. The following is the effect of profit or loss or of other comprehensive income from financial assets and liabilities categorised within Level 3 if the inputs used to valuation models have changed:

| | | | December 31, 2018 | | | |
|---|---|---|---|---|---|---|
| | | | Recognised in profit or loss | | Recognised in other comprehensive income | |
| | Input | Change | Favourable Change | Unfavourable change | Favourable change | Unfavourable change |
| Financial assets | | | | | | |
| Equity instrument | Price to book ratio multiple | ± 1% | $ - | $ - | $ 1,232 | ($ 1,232) |

| | | | December 31, 2017 | | | |
|---|---|---|---|---|---|---|
| | | | Recognised in profit or loss | | Recognised in other comprehensive income | |
| | Input | Change | Favourable Change | Unfavourable change | Favourable change | Unfavourable change |
| Financial assets | | | | | | |
| Equity instrument | Price to book ratio multiple | ± 1% | $ - | $ - | $ 1,133 | ($ 1,133) |

(4) <u>Effects on initial application of IFRS 9 and information on application of IAS 39 in 2017</u>

A. Summary of significant accounting policies adopted in 2017 :

(a) Financial assets at fair value through profit or loss

i. Financial assets at fair value through profit or loss are financial assets held for trading or financial assets designated as at fair value through profit or loss on initial recognition. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as financial assets held for trading unless they are designated as hedges. Financial assets that meet one of the following criteria are designated as at fair value through profit or loss on initial recognition:

(i) Hybrid (combined) contracts; or

(ii) They eliminate or significantly reduce a measurement or recognition inconsistency; or

(iii) They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

ii. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using trade date accounting.

iii. Financial assets at fair value through profit or loss are initially recognised at fair value. Related transaction costs are expensed in profit or loss. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognised in profit or loss.

(b) Available-for-sale financial assets

i. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

ii. On a regular way purchase or sale basis, available-for-sale financial assets are recognised and derecognised using trade date accounting.

iii. Available-for-sale financial assets are initially recognised at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognised in other comprehensive income. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured or derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are presented in ‘financial assets measured at cost’.

(c) Held-to-maturity financial assets

i. Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity date that the Group has the positive intention and ability to hold to maturity other than those that meet the definition of loans and receivables and those that are designated as at fair value through profit or loss or as available-for-sale on initial recognition.

ii. On a regular way purchase or sale basis, held-to-maturity financial assets are recognised and derecognised using trade date accounting.

iii. Held-to-maturity financial assets are initially recognised at fair value on the trade date plus transaction costs and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Amortisation of a premium or a discount on such assets is recognised in profit or loss.

(d) Loans and receivables

i. Accounts receivable

Accounts receivable are loans and receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. Accounts receivable are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

ii. Investments in debt instrument without active market

(i) Investments in debt instrument without active market are loans and receivables not originated by the entity. They are bond investments with fixed or determinable payments that are not quoted in an active market, and also meet all of the following conditions:

a. Not designated on initial recognition as at fair value through profit or loss;

b. Not designated on initial recognition as available-for-sale;

c. Not for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

(ii) On a regular way purchase or sale basis, investments in debt instrument without active market are recognised and derecognised using trade date accounting.

(iii) Investments in debt instruments without active market are initially recognised at fair value on the trade date plus transaction costs and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Amortisation of a premium or a discount on such assets is recognised in profit or loss.

(iv) Investments in debt instruments without active market held by the Group are those time deposits with a short maturity period but do not qualify as cash equivalents, and they are measured at initial investment amount as the effect of discounting is immaterial.

(e) Impairment of financial assets

i. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’ ) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

ii. The criteria that the Group uses to determine whether there is objective evidence of an impairment loss is as follows:

(i) Significant financial difficulty of the issuer or debtor;

(ii) A breach of contract, such as a default or delinquency in interest or principal payments;

(iii) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;

(iv) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

(v) The disappearance of an active market for that financial asset because of financial difficulties;

(vi) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;

(vii) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered;

(viii) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

iii. When the Group assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:

(i) Financial assets measured at amortised cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortised cost that would have been at the date of reversal had the impairment loss not been recognised previously. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(ii) Financial assets measured at cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at current market return rate of similar financial asset, and is recognised in profit or loss. Impairment loss recognised for this category shall not be reversed subsequently. Impairment loss is recognised by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(iii) Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the asset's acquisition cost (less any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, and is reclassified from 'other comprehensive income' to 'profit or loss'. If, in a subsequent period, the fair value of an investment in a debt instrument increases, and the increase can be related objectively to an event occurring after the impairment loss was recognised, then such impairment loss is reversed through profit or loss. Impairment loss of an investment in an equity instrument recognised in profit or loss shall not be reversed through profit or loss. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

B. The reconciliations of carrying amount of financial assets transferred from December 31, 2017, IAS 39, to January 1, IFRS 9, were as follows:

| | | Measured | Available-for-sale-equity | Held-to-maturity | | | | Effects | |
|---|---|---|---|---|---|---|---|---|---|
| | Note | at fair value through profit or loss | Measured at fair value through other comprehensive income-equity | Measured at amortised cost | Measured at cost | Debt instrument without active market | Total | Retained earnings | Others equity |
| **IAS 39** | | $675,891 | $ 717,745 | $ - | $811,496 | $ 24,370,143 | $26,575,275 | $ - | $ - |
| Transferred into and measured at fair value through profit or loss | (c) | 96,875 | ( 96,875) | - | - | - | - | - | - |
| Transferred into and measured at fair value through other comprehensive income-equity | (b) | - | 847,070 | - | ( 847,070) | - | - | - | - |
| Transferred into and measured at amortised cost | (a) | - | - | 24,370,143 | - | ( 24,370,143) | - | - | - |
| Fair value adjustment | (b)(c) | - | 326,257 | - | - | - | 326,257 | ( 83,042) | 409,299 |
| Impairment loss adjustment | (b) | - | ( 35,574) | - | 35,574 | - | - | 186,184 | ( 186,184) |
| **IFRS 9** | | $ 772,766 | $ 1,758,623 | $ 24,370,143 | $ - | $ - | $ 26,901,532 | $103,142 | $223,115 |

(a) Under IAS 39, because the cash flows of debt instruments without active market, amounting to $24,370,143, met the condition that it is intended to settle the principal and interest on the outstanding principal balance, it was reclassified as "financial assets at amortised cost" amounting to $24,370,143 on initial application of IFRS 9.

(b) Under IAS 39, because the equity instruments, which were classified as available-for-sale financial assets, financial assets at cost, amounting to $620,870 and $811,496, respectively, were not held for the purpose of trading, they were reclassified as "financial assets at fair value through other comprehensive income (equity instruments)" amounting to $1,758,623. Accordingly, retained earnings and other equity interest increased in the amounts of $186,184 and $140,073 on initial application of IFRS 9, respectively.

(c) Under IAS 39, the equity instruments, which were classified as available-for-sale financial assets, amounting to $96,875, was reclassified as "financial assets at fair value through profit or loss (equity instruments)" amounting to $96,875. Accordingly, retained earnings decreased and other equity interest increased in the amounts of $83,042 and $83,042 under IFRS 9, respectively.

C. The significant accounts as of December 31, 2017 are as follows:

(a) Financial assets at fair value through profit or loss

| Items | December 31, 2017 |
|---|---|
| Current items: | |
| Financial assets held for trading | |
| Beneficiary Certificate | $ 581,659 |
| Valuation adjustment of financial assets held for trading | 94,232 |
| | $ 675,891 |

i. The Group recognised net profit amounting to $18,142 on financial assets held for trading for the year ended December 31, 2017.

ii. The Group has no financial assets at fair value through profit or loss pledged to others.

(b) Available-for-sale financial assets

| Items | December 31, 2017 |
|---|---|
| Non-current items: | |
| Listed stocks | $ 219,364 |
| Unlisted stocks | 269,416 |
| | 488,780 |
| Valuation adjustment | 228,965 |
| | $ 717,745 |

i. The Group recognised $110,120 in other comprehensive income for fair value change for the year ended December 31, 2017.

(c) Financial assets at cost

| Items | December 31, 2017 |
| --- | --- |
| Unlisted stocks | $ 811,496 |

i. The Group's stock investments such as Dehong Venture Capital Co., Ltd., Starix Technology, Inc., Octetta Investment Holding, Inc., Xu De Technology Co., Ltd., Sinopec Technology Co., Ltd. and CyWeeMotion Group Limited, According to the intention of the investment, it should be classified as a financial asset available-for-sale. However, because the target is not openly traded in the active market, and it is unable to obtain sufficient industry information of similar companies and relevant financial information of the invested company, it cannot be reasonably and reliably measured. The fair value of the subject matter is therefore classified as "financial assets measured by cost".

ii. As of December 31, 2017, no financial assets measured at cost held by the Group were pledged to others.

(d) Investments in debt instruments without active markets

| Items | December 31, 2017 |
| --- | --- |
| Current items: | |
| Structured Deposit | $ 21,899 |
| Time Deposit | 24,348,244 |
| | $ 24,370,143 |

As of December 31, 2017, no investments in debt instruments without active markets held by the Group were pledged to others.

D. Credit risk information for the year ended December 2017 is as follows:

(a) Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors.

(b) For the year ended December 31, 2017, no credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.

(c) The credit quality of accounts receivable that were neither past due nor impaired was in the following categories based on the Group's Credit Quality Control Policy:

| | December 31, 2017 |
| --- | --- |
| Group 1 | $ 1,051,450 |
| Group 2 | 5,894,934 |
| | $ 6,946,384 |

Note:

Group 1: Non-distributor.

Group 2: Distributor.

(d) The aging analysis of accounts receivable that were past due but not impaired is as follows:

| | December 31, 2017 | |
|---|---|---|
| Up to 30 days | $ | 278 |
| 91 to 180 days | | 1 |
| | $ | 279 |

(e) Movement analysis of individual provision on financial assets that were impaired is as follows:

i. As of December 31, 2017, the Group's accounts receivable that were impaired amounted to $59,792.

ii. Movements on the provision for impairment of accounts receivable are as follows:

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Individual provision | | Group provision | | Total | |
| At January 1 | $ | 40,368 | $ | - | $ | 40,368 |
| Provision for impairment | | 19,424 | | - | | 19,424 |
| At December 31 | $ | 59,792 | $ | - | $ | 59,792 |

(5) Effects of initial application of IFRS 15 and information on application of IAS 18 in 2017

A. The significant accounting policies applied on revenue recognition for the year ended December 31, 2017 are set out below.

(a) Sales of goods

The Group manufactures and sells integrated circuit products. Revenue is measured at the fair value of the consideration received or receivable taking into account of value-added tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Group's activities. Revenue arising from the sales of goods is recognised when the Group has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

(b) Revenue from design, royalty and technical services

Revenue from design, royalty and technical services is recognised according to the stage of completion of transactions when the following conditions are met, and the cost incurred shall be recognised as the cost in the current period:

i. revenue can be reliably measured;

ii. transaction related economic benefits may flow to the entity;

iii. costs incurred or will be incurred relating to transactions can be reliably measured;

iv. the stage of completion of transactions can be reliably measured at the balance sheet date.

B. The revenue recognised by using above accounting policies for the year ended December 31, 2017 are as follows:

| | Year ended December 31, 2017 |
|---|---|
| Sales revenue | $ 41,592,887 |
| Design revenue | 45,946 |
| Royalty revenue | 49,188 |
| | $ 41,688,021 |

C. The effects and description of current balance sheet items if the Group continues adopting above accounting policies are as follows:

| | | December 31, 2018 | | |
|---|---|---|---|---|
| Balance sheet items | Description | Balance by using IFRS 15 | Balance by using previous accounting policies | Effects from changes in accounting policy |
| Accounts receivable | (a) | $ - | ($ 3,705,665) | ($ 3,705,665) |
| Contract liabilities | (b) | ( 148,696) | - | 148,696 |
| Other current liabilities | (a) | ( 3,705,665) | - | 3,705,665 |
| Advance sales receipts | (b) | - | ( 148,696) | ( 148,696) |

Explanation:

(a) Estimated sales discount was classified as refund liability in accordance with IFRS 15 but was classified as receivables-offset sales return and allowance under IAS 18.

(b) Contract liabilities classified in accordance with IFRS 15 was classified as advance sales receipts under IAS 18.

## 13. SUPPLEMENTARY DISCLOSURES

### (1) Significant transactions information

A. Loans to others: Please refer to table 1.

B. Provision of endorsements and guarantees to others: Please refer to table 2.

C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 3.

D. Acquisition or sale of the same security with the accumulated cost exceeding $300 million or 20% of the Company’s paid-in capital: Please refer to table 4.

E. Acquisition of real estate reaching $300 million or 20% of paid-in capital or more: None.

F. Disposal of real estate reaching $300 million or 20% of paid-in capital or more: None.

G. Purchases or sales of goods from or to related parties reaching $100 million or 20% of paid-in capital or more: Please refer to table 5.

H. Receivables from related parties reaching $100 million or 20% of paid-in capital or more: Please refer to table 6.

I. Trading in derivative instruments undertaken during the reporting periods: None.

J. Significant inter-company transactions during the reporting periods: Please refer to table 7.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China): Please refer to table 8.

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 9.

B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to table 10.

14. SEGMENT INFORMATION

1. General information

The Group operates business only in a single industry. The Chief Operating Decision-Maker, who allocates resources and assesses performance of the Group as a whole, has identified that the Group has only one reportable operating segment.

2. Measurement of segment information

The Chief Operating Decision-Maker assesses the performance of the operating segments based on the consolidated financial statements. The policy of operating segments is the same as that described in Note 4.

3. Information on segment profit(loss), assets and liabilities

Year ended December 31, 2018

| | Amount |
|---|---|
| Revenue from external customers | $ 45,805,746 |
| Inter-segment revenue | $ - |
| Segment income | $ 4,350,781 |
| Total segment assets | $ 58,252,314 |

Year ended December 31, 2017

| | Amount |
|---|---|
| Revenue from external customers | $ 41,688,021 |
| Inter-segment revenue | $ - |
| Segment income | $ 3,392,160 |
| Total segment assets | $ 52,310,913 |

4. Reconciliation for segment profit (loss)

None.

5. Revenue information by category

Revenue from external customers are derived from the sale of integrated circuits. Breakdown of the revenue from all sources are as follows:

| | 2018 | 2017 |
|---|---|---|
| Revenue from ICs | $ 45,735,868 | $ 41,592,887 |
| Others | 69,878 | 95,134 |
| Total | $ 45,805,746 | $ 41,688,021 |

6. Revenue information by geographic area

Geographical information for the years ended December 31, 2018 and 2017 is as follows:

| | Year ended December 31, 2018 | | Year ended December 31, 2017 | |
|---|---|---|---|---|
| | Revenue | Non-current assets | Revenue | Non-current assets |
| Taiwan | $ 23,741,926 | $ 4,038,765 | $ 20,082,180 | $ 4,181,475 |
| Asia | 21,762,224 | 965,083 | 21,352,444 | 1,057,748 |
| Others | 301,596 | 27,552 | 253,397 | 19,583 |
| Total | $ 45,805,746 | $ 5,031,400 | $ 41,688,021 | $ 5,258,806 |

7. Major customer information

Major customer information of the Group for the years ended December 31, 2018 and 2017 is as follows:

| | Year ended December 31, 2018 | | |
|---|---|---|---|
| | Revenue | Percentage | Segment |
| Customer A | $ 10,575,725 | 23% | The whole group |
| Customer B | 10,505,983 | 23% | 〃 |
| Customer D | 8,373,071 | 18% | 〃 |

| | Year ended December 31, 2017 | | |
|---|---|---|---|
| | Revenue | Percentage | Segment |
| Customer A | $ 9,817,120 | 24% | The whole group |
| Customer B | 9,171,261 | 22% | 〃 |
| Customer D | 7,196,408 | 17% | 〃 |

REALTEK SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

Loans to others

Year ended December 31, 2018

Table 1

Expressed in thousands of NTD

(Except as otherwise indicated)

| No (Note 1) | Creditor | Borrower | General ledger account | Is a related party | Maximum outstanding balance during the year ended December 31, 2018 (Note 3) | Balance at December 31, 2018 | Actual amount drawn down | Interest rate | Nature of loan | Amount of transactions with the borrower | Reason for short-term financial | Allowance for doubtful accounts | Collateral | | Limit on loans granted to a single party | Ceiling on total loans granted (Note 2) | Footnote |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | | | Item | Value | | | |
| 0 | Realtek Semiconductor Corporation | Realtek Singapore Private Limited | Other receivables-related parties | Y | $ 1,843,980 | $ 1,843,980 | $ – | – | 2 | $ – | Operations | $ - | None | $ - | $ 2,350,257 | $ 9,401,026 | None |
| 0 | Realtek Semiconductor Corporation | Leading Enterprises Limited | Other receivables-related parties | Y | 921,990 | 921,990 | 365,723 | 3.30 | 2 | – | Operations | - | None | - | 2,350,257 | 9,401,026 | None |
| 0 | Realtek Semiconductor Corporation | Talent Eagle Enterprise Inc. | Other receivables-related parties | Y | 1,843,980 | 1,843,980 | 1,628,849 | 3.30 | 2 | – | Operations | - | None | - | 2,350,257 | 9,401,026 | None |
| 0 | Realtek Semiconductor Corporation | Bluocean Inc. | Other receivables-related parties | Y | 1,843,980 | 1,843,980 | 602,367 | 3.30 | 2 | – | Operations | - | None | - | 2,350,257 | 9,401,026 | None |
| 1 | Leading Enterprises Limited | Realtek Semiconductor (Shen Zhen) Corp. | Other receivables-related parties | Y | 153,665 | 153,665 | – | – | 2 | – | Operations | - | None | - | 9,401,026 | 9,401,026 | None |
| 1 | Leading Enterprises Limited | Bluocean Inc. | Other receivables-related parties | Y | 6,146,600 | 6,146,600 | 2,327,410 | 3.30 | 2 | – | Operations | - | None | - | 9,401,026 | 9,401,026 | None |
| 2 | Amber Universal Inc. | Talent Eagle Enterprise Inc. | Other receivables-related parties | Y | 3,073,300 | 3,073,300 | – | – | 2 | – | Operations | - | None | - | 9,401,026 | 9,401,026 | None |
| 3 | Cortina Access, Inc. | Leading Enterprises Limited | Other receivables-related parties | Y | 921,990 | 921,990 | – | – | 2 | – | Operations | - | None | - | 9,401,026 | 9,401,026 | None |
| 4 | Realtek Singapore Private Limited | Realsil Microelectronics Corp. | Other receivables-related parties | Y | 921,990 | 921,990 | – | – | 2 | – | Operations | - | None | - | 9,401,026 | 9,401,026 | None |
| 4 | Realtek Investment Singapore Private Limited | Realtek Singapore Private Limited | Other receivables-related parties | Y | 3,073,300 | 3,073,300 | 739,129 | 3.30 | 2 | – | Operations | - | None | - | 9,401,026 | 9,401,026 | None |

REALTEK SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

Loans to others

Year ended December 31, 2018

Table 1

Expressed in thousands of NTD

(Except as otherwise indicated)

| No (Note 1) | Creditor | Borrower | General ledger account | Is a related party | Maximum outstanding balance during the year ended December 31, 2018 (Note 3) | Balance at December 31, 2018 | Actual amount drawn down | Interest rate | Nature of loan | Amount of transactions with the borrower | Reason for short-term financial | Allowance for doubtful accounts | Collateral Item | Collateral Value | Limit on loans granted to a single party | Ceiling on total loans granted (Note 2) | Footnote |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 5 | Realsil Microelectronics Corp. | RayMX Microelectronics Corp. | Other receivables-related parties | Y | $ 358,096 | $ 358,096 | $ - | - | 2 | $ - | Operations | - | None | - | $ 9,401,026 | $ 9,401,026 | None |
| 5 | Realsil Microelectronics Corp. | Suzhou Hongwei Microelectronic Corp. | Other receivables-related parties | Y | 358,096 | 358,096 | - | - | 2 | - | Operations | - | None | - | 9,401,026 | 9,401,026 | None |

Note 1: The numbers filled in for the loans provided by the Company or subsidiaries are as follows:

(1) The Company is ‘0’.

(2) The subsidiaries are numbered in order starting from ‘1’.

Note 2: The Company’s “Procedures for Provision of Loans” are as follows:

(1) Ceiling on total loans granted by the Company to all parties is 40% of the Company’s net assets value as per its most recent financial statements.

(2) Limit on loans to a single party with business transactions is the business transactions occurred between the creditor and borrower in the current year. The business transaction amount is the higher of purchasing and selling during current year on the year of financing.

(3) For companies needing for short-term financing, the cumulative lending amount may not exceed 40% of the borrowing company’s net assets based on its latest financial statements audited or reviewed by independent accountants.

The amount the Company or its subsidiaries lend to an individual entity may not exceed 10% of the Company’s or subsidiary’s net assets based on its latest financial statements audited or reviewed by independent accountants.

For the foreign companies which the Company holds 100% of the voting rights directly or indirectly, limit on loans is not restricted as stipulated in the above item (3). However, the ceiling on total loans and limit on loans to a single partymay not exceed 40% of the Company’s net assets based on its latest financial statements audited or reviewed by independent accountants.

Note 3: The authorized limit is approved by the Board of Directors.

REALTEK SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

Provision of endorsements and guarantees to others

Year ended December 31, 2018

Table 2

Expressed in thousands of NTD

(Except as otherwise indicated)

| Number (Note 1) | Endorser/ guarantor | Party being endorsed/guaranteed Company name | Relationship with the endorser/ guarantor (Note 2) | Limited on endorsements/ guarantees provided for a single party (Note 3) | Maximum outstanding endorsement/ amount as of December 31, 2018 (Note 4) | Outstanding endorsement/ guarantee amount at December 31, 2018 (Note 5) | Actual amont drawn down (Note 6) | Amount of endorsements/ gurantees secured with collateral | Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company | Ceiling on total amount of endorsements/ guarantees provided (Note 3) | Provision of endorsements/ guarantees by parent company to subsidiary (Note 7) | Provision of endorsements/ guarantees by subsidiary to parent company (Note 7) | Provision of endorsements/ guarantees to the party in Mainland China (Note 7) | Footnote |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 0 | Realtek Semiconductor Corporation | Realtek Singapore Private Limited | 2 | $ 11,751,283 | $ 2,350,257 | $ 2,350,257 | $ - | $ - | 0.10 | $ 11,751,283 | Y | N | N | |
| 0 | Realtek Semiconductor Corporation | Leading Enterprises Limited | 2 | 11,751,283 | 7,050,770 | 7,050,770 | - | - | 0.30 | 11,751,283 | Y | N | N | |
| 0 | Realtek Semiconductor Corporation | RayMX Microelectronics Corp. | 2 | 11,751,283 | 705,077 | 705,077 | - | - | 0.03 | 11,751,283 | Y | N | Y | |
| 1 | Leading Enterprises Limited | Realsil Microelectronics Corp. | 2 | 11,751,283 | 614,660 | 614,660 | - | - | 0.03 | 11,751,283 | N | N | Y | |
| 2 | Realsil Microelectronics Corp. | RayMX Microelectronics Corp. | 2 | 11,751,283 | 614,660 | 614,660 | - | - | 0.03 | 11,751,283 | N | N | Y | |

Note 1: The numbers filled in for the endorsements/guarantees provided by the Company or subsidiaries are as follows:

(1)The Company is '0'.

(2)The subsidiaries are numbered in order starting from '1'.

Note 2: Relationship between the endorser/guarantor and the party being endorsed/guaranteed is classified into the following six categories:

(1) Having business relationship.

(2) The endorser/guarantor parent company owns directly more than 50% voting shares of the endorsed/guaranteed subsidiary.

(3) The endorser/guarantor parent company and its subsidiaries jointly own more than 50% voting shares of the endorsed/guaranteed company.

(4) The endorsed/guaranteed parent company directly or indirectly owns more than 50% voting shares of the endorser/guarantor subsidiary.

(5) Mutual guarantee of the trade as required by the construction contract.

(6) Due to joint venture, each shareholder provides endorsements/guarantees to the endorsed/guaranteed company in proportion to its ownership.

Note 3: Ceiling on total endorsements/guarantees granted by the Company and subsidiaries is 50% of the Company's net asset based on the latest financial statements audited or reviewed by independent accountants, and limit on endorsements/guarantees to a single party is 50% of the Company's net asset based on the latest financial statements audited or reviewed by independent accountants.

Note 4: Fill in the year-to-date maximum outstanding balance of endorsements/guarantees provided as of the reporting period.

Note 5: Once endorsement/guarantee contracts or promissory notes are signed/issued by the endorser/guarantor company to the banks, the endorser/guarantor company bears endorsement/guarantee liabilities.And all other events involve endorsements and guarantees should be included in the balance of outstanding endorsements and guarantees.

Note 6: Fill in the actual amount of endorsements/guarantees used by the endorsed/guaranteed company.

Note 7: Fill in 'Y' for those cases of provision of endorsements/guarantees by listed parent company to subsidiary and provision by subsidiary to listed parent company, and provision to the party in Mainland China.

REALTEK SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)

December 31, 2018

Table 3

Expressed in thousands of NTD
(Except as otherwise indicated)

| Securities held by | Maretable securies (Note 1) | Relationship with the securities issuer(Note 2) | General ledger account | As of December 31, 2018 Number of shares | Book value (Note 3) | Ownership (%) | Fair value | Footnote (Note 4) |
|---|---|---|---|---|---|---|---|---|
| Realtek Semiconductor Corporation | C-media Electronics Inc. - Common stock | Other related parties | Financial assets at fair value through profit or loss | 1, 623, 501 | $ 29, 061 | 2. 05% | $ 29, 061 | |
| Realtek Semiconductor Corporation | Technology Partner Venture Capital Corporation - Common stock | Other related parties | Financial assets at fair value through other comprehensive income | 283, 791 | 936 | 16. 02% | 936 | |
| Realking Investment Limited | Compal broadband networks Inc. - Common stock | None | Financial assets at fair value through other comprehensive income | 3, 575, 000 | 164, 093 | 5. 35% | 164, 093 | |
| Realsun Investment Co., Ltd. | Shieh-Yong Investment Co., Ltd. - Common stock | None | Financial assets at fair value through other comprehensive income | 23, 124, 000 | 186, 374 | 3. 03% | 186, 374 | |
| Realsun Investment Co., Ltd. | Compal broadband networks Inc. - Common stock | None | Financial assets at fair value through other comprehensive income | 3, 575, 000 | 164, 093 | 5. 35% | 164, 093 | |
| Leading Enterprises Limited | Fortemedia Inc. - Common stock | None | Financial assets at fair value through other comprehensive income | 8, 623, 301 | 99, 546 | 6. 89% | 99, 546 | |
| Leading Enterprises Limited | Starix Technology, Inc.-Preferred stock | None | Financial assets at fair value through other comprehensive income | 5, 000, 000 | 18, 440 | - | 18, 440 | |
| Leading Enterprises Limited | Octtasia Investment Holding Inc. - Common stock | None | Financial assets at fair value through other comprehensive income | 9, 000, 000 | 475, 242 | 12. 49% | 475, 242 | |
| Amber Universal Inc. | Octtasia Investment Holding Inc. - Common stock | None | Financial assets at fair value through other comprehensive income | 4, 726, 836 | 249, 599 | 6. 56% | 249, 599 | |
| Hung-wei Venture Capital Co., Ltd. | United Microelectronics Corporation - Common stock | None | Financial assets at fair value through other comprehensive income | 336, 346 | 3, 784 | - | 3, 784 | |
| Hung-wei Venture Capital Co., Ltd. | C-media Electronics Inc.- Common stock | Other related parties | Financial assets at fair value through profit or loss | 2, 274, 875 | 40, 720 | 2. 88% | 40, 720 | |
| Hung-wei Venture Capital Co., Ltd. | Greatek Electroninc Inc. - Common stock | Other related parties | Financial assets at fair value through other comprehensive income | 5, 823, 602 | 250, 124 | 1. 05% | 250, 124 | |
| Hung-wei Venture Capital Co., Ltd. | Subtron technology Co., Ltd - Common stock | None | Financial assets at fair value through other comprehensive income | 1, 093, 968 | 10, 841 | 0. 33% | 10, 841 | |
| Hung-wei Venture Capital Co., Ltd. | Embestor Technology Inc. - Common stock | Other related parties | Financial assets at fair value through other comprehensive income | 2, 800, 000 | 28, 000 | 12. 17% | 28, 000 | |
| Realsil Microelectronics Corp. | China Universal Cash Premium Money Market Fund | None | Financial assets at fair value through profit or loss | 8, 854, 549 | 39, 635 | - | 39, 635 | |
| Realsil Microelectronics Corp. | China Money Fund | None | Financial assets at fair value through profit or loss | 1, 006, 124 | 4, 504 | - | 4, 504 | |
| Realsil Microelectronics Corp. | Harvest Money Market | None | Financial assets at fair value through profit or loss | 1, 005 | 4 | - | 4 | |

REALTEK SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)

December 31, 2018

Table 3

Expressed in thousands of NTD
(Except as otherwise indicated)

| Securities held by | Maretable securies (Note 1) | Relationship with the securities issuer(Note 2) | General ledger account | As of December 31, 2018 Number of shares | Book value (Note 3) | Ownership (%) | Fair value | Footnote (Note 4) |
|---|---|---|---|---|---|---|---|---|
| Realsil Microelectronics Corp. | Tianhong Money Fund | None | Financial assets at fair value through profit or loss | 38,754,137 | $ 173,473 | - | $ 173,473 | |
| Realsil Microelectronics Corp. | ICBC - Money Fund | None | Financial assets at fair value through profit or loss | 1,003,954 | 4,494 | - | 4,494 | |
| Realsil Microelectronics Corp. | Zhou Zhoufa Stable Fund | None | Financial assets at fair value through profit or loss | 1,027,247 | 4,598 | - | 4,598 | |
| Realsil Microelectronics Corp. | Zhou Zhoufa Balanced Fund | None | Financial assets at fair value through profit or loss | 28,152,645 | 126,018 | - | 126,018 | |
| Realsil Microelectronics Corp. | Tian Tianjin Aggressive Fund | None | Financial assets at fair value through profit or loss | 57,544,884 | 257,585 | - | 257,585 | |
| Realsil Microelectronics Corp. | China Universal Cash Premium Money Market Fund | None | Financial assets at fair value through profit or loss | 20,078,823 | 89,878 | - | 89,878 | |
| Realsil Microelectronics Corp. | Tian Tianjin Stable Fund | None | Financial assets at fair value through profit or loss | 6,550,041 | 29,320 | - | 29,320 | |
| Realsil Microelectronics Corp. | Tian Tianjin Financial Fund A | None | Financial assets at fair value through profit or loss | 25,172,317 | 112,677 | - | 112,677 | |
| Realsil Microelectronics Corp. | Tian Tianjin Financial Fund B | None | Financial assets at fair value through profit or loss | 18,124,068 | 81,128 | - | 81,128 | |
| Realtek Semiconductor (Shen Zhen) Corp. | Zhou Zhoufa Fund | None | Financial assets at fair value through profit or loss | 3,352,777 | 17,914 | - | 17,914 | |
| Realtek Semiconductor (Shen Zhen) Corp. | Tian Tianjin Stable Fund | None | Financial assets at fair value through profit or loss | 25,814,042 | 140,659 | - | 140,659 | |
| Realtek Semiconductor (Shen Zhen) Corp. | Tian Tianjin Aggressive Fund | None | Financial assets at fair value through profit or loss | 8,249,551 | 43,999 | - | 43,999 | |
| Cortina Network Systems Shanghai Co. Ltd. | ICBC - Money Fund | None | Financial assets at fair value through profit or loss | 4,075,824 | 18,244 | - | 18,244 | |
| Cortina Network Systems Shanghai Co. Ltd. | Zhou Zhoufa Stable Fund | None | Financial assets at fair value through profit or loss | 7,923,120 | 35,466 | - | 35,466 | |
| Cortina Network Systems Shanghai Co. Ltd. | Tian Tianjin Stable Fund | None | Financial assets at fair value through profit or loss | 5,671,048 | 25,385 | - | 25,385 | |
| Cortina Network Systems Shanghai Co. Ltd. | Tian Tianjin Aggressive Fund | None | Financial assets at fair value through profit or loss | 10,352,637 | 46,341 | - | 46,341 | |
| Bluocean Inc. | CyWeeMotion Group Limited | None | Financial assets at fair value through other comprehensive income | 4,800,000 | - | 6.59% | - | |

Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities within the scope of IFRS 9 'Financial instrument'.

Note 2: Leave the column blank if the issuer of marketable securities is non-related party.

Note 3: Fill in the amount after adjusted at fair value and deducted by accumulated impairment for the marketable securities measured at fair value; fill in the acquisition cost or amortised cost deducted by accumulated impairment for the marketable securities not measured at fair value.

Note 4: The number of shares of securities and their amounts pledged as security or pledged for loans and their restrictions on use under some agreements should be stated in the footnote if the securities presented herein have such conditions.

REALTEK SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

Acquisition or sale of the same security with the accumulated cost exceeding $300 million or 20% of the Company's paid-in capital

Year ended December 31, 2018

Table 4

Expressed in thousands of NTD

(Except as otherwise indicated)

| | | | | | Balance as at January 1, 2018 | | Addition | | Disposal | | | | Balance as at December 31,2018 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Investor | Marketable securities | General ledger account | Counterparty | Relationship with the investor | Number of shares | Amount | Number of shares | Amount | Number of shares | Selling price | Book value | Gain (loss) on disposal | Number of shares | Amount (Note) |
| Talent Eagle Enterprise Inc. | Ubilinx Technology Inc. | Equity investments under the equity method | Ubilinx Technology Inc. | Investee company accounted for under the equity method | 14,000,000 | $ 42,653 | 12,000,000 | $ 362,264 | - | $ - | $ - | $ - | 26,000,000 | $ 23,538 |

Note : Including investment loss accounted for under the equity method and cumulative translation adjustment.

REALTEK SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

Purchases or sales of goods from or to related parties reaching NT$100 million or 20% of paid-in capital or more

Year ended December 31, 2018

Table 5

Expressed in thousands of NTD

(Except as otherwise indicated)

| | | | Transaction | | | | Differences in transaction terms compared to third party transactions(Note 1) | | Notes/accounts receivable(payable) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Purchase/seller | Counterparty | Relationship with the counterparty | Purchase (sales) | Amount | Percentage of total purchase (sales) | Credit term | Unit price | Credit term | Balance | Percentage of total notes/accounts receivable (payable) | Footnote |
| Realtek Semiconductor Corporation | G.M.I Technology Inc. | Other related parties | (Sales) | ($ 4,888,451) | (11%) | Approximately the same with third party transactions | Approximately the same with third party transactions | Approximately the same with third party transactions | $ 980,790 | 13% | |
| Realtek Semiconductor Corporation | Actions Semiconductor Co., Ltd. | Other related parties | (Sales) | ( 358,241) | (1%) | Approximately the same with third party transactions | Approximately the same with third party transactions | Approximately the same with third party transactions | 41,928 | 1% | |
| Realtek Singapore Private Limited | G.M.I Technology Inc. | Other related parties | (Sales) | ( 3,484,620) | (8%) | Approximately the same with third party transactions | Approximately the same with third party transactions | Approximately the same with third party transactions | 738,018 | 10% | |
| Realtek Semiconductor Corporation | Greatek Electronics Inc. | Other related parties | Purchase | 887,456 | 5% | Approximately the same with third party transactions | Approximately the same with third party transactions | Approximately the same with third party transactions | ( 228,279) | 4% | |
| Realtek Singapore Private Limited | Greatek Electronics Inc. | Other related parties | Purchase | 200,022 | 1% | Approximately the same with third party transactions | Approximately the same with third party transactions | Approximately the same with third party transactions | ( 21,590) | 0% | |

Note 1: The terms for related parties are different from third parties. Differences in transaction terms compared to third party transactions should be explained in unit price and transaction term columns.

REALTEK SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

Receivable from related parties reaching NT$100 million 0r 20% of paid-in capital or more

December 31, 2018

Table 6

Expressed in thousands of NTD

(Except as otherwise indicated)

| Creditor | Counterparty | Relationship with the counterparty | Balance as at December 31, 2018 | Turnover rate | Overdue receivables Amount | Overdue receivables Action taken | Amount collected subsequent to the balance sheet date | Allowance for doubtful accounts |
|---|---|---|---|---|---|---|---|---|
| Realtek Semiconductor Corporation | G.M.I Technology Inc. | Other related parties | $ 980,790 | 5.18 | $ - | - | $ 512,963 | $ 9,907 |
| Realtek Singapore Private Limited | G.M.I Technology Inc. | Other related parties | 738,018 | 7.82 | - | - | 494,477 | 1,479 |

REALTEK SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

Significant inter-company transactions during the reporting periods

Year ended December 31, 2018

Table 7

Expressed in thousands of NTD

(Except as otherwise indicated)

Significant inter-company transactions during the reporting periods:

| Number (Note 1) | Company name | Counterparty | Relationship (Note 2) | Transaction: General ledger account | Transaction: Amount | Transaction: Transaction terms | Transaction: Percentage of consolidated total operating revenues or total assets (Note 3) |
|---|---|---|---|---|---|---|---|
| 0 | Realtek Semiconductor Corporation | Leading Enterprises Limited | 1 | Other receivables | $ 365,723 | Fund lending is in accordance with loan agreement terms. | 0.63% |
| 0 | 〃 | Talent Eagle Enterprise Inc. | 1 | Other receivables | 1,628,849 | 〃 | 2.80% |
| 0 | 〃 | Bluocean Inc. | 1 | Other receivables | 602,367 | 〃 | 1.03% |
| 0 | 〃 | RayMX Microelectronics Corp. | 1 | Other receivables | 50,000 | No similar transaction can be compared with. Transaction prices and terms are determined in accordance with mutual agreement. | 0.09% |
| 0 | 〃 | RayMX Microelectronics Corp. | 1 | Gain on disposal of assets | 50,000 | 〃 | 0.11% |
| 1 | Leading Enterprises Limited | Bluocean Inc. | 3 | Other receivables | 2,327,410 | Fund lending is in accordance with loan agreement terms. | 4.00% |
| 1 | 〃 | Bluocean Inc. | 3 | Interest revenue | 72,831 | 〃 | 0.16% |
| 1 | 〃 | Realtek Semiconductor (Japan) Corp. | 3 | Technical service fees | 57,027 | No similar transaction can be compared with. Transaction prices and terms are determined in accordance with mutual agreement. | 0.12% |
| 2 | Bluocean Inc. | Realtek Semiconductor Corporation | 2 | Interest expense | 20,889 | Fund lending is in accordance with loan agreement terms. | 0.05% |
| 3 | Talent Eagle Enterprise Inc. | Realtek Semiconductor Corporation | 2 | Interest expense | 21,983 | 〃 | 0.05% |
| 4 | Realtek Singapore Private Limited | Realsil Microelectronics Corp. | 3 | Technical service fees | 1,395,502 | No similar transaction can be compared with. Transaction prices and terms are determined in accordance with mutual agreement. | 3.05% |
| 4 | 〃 | Realsil Microelectronics Corp. | 3 | Other payables | 58,171 | 〃 | 0.11% |
| 4 | 〃 | Realtek Semiconductor (Shen Zhen) Corp. | 3 | Technical service fees | 270,803 | 〃 | 0.59% |
| 4 | 〃 | Realtek Semiconductor (Shen Zhen) Corp. | 3 | Other payables | 11,236 | 〃 | 0.02% |
| 4 | 〃 | Cortina Access, Inc. | 3 | Technical service fees | 216,550 | 〃 | 0.47% |

REALTEK SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

Significant inter-company transactions during the reporting periods

Year ended December 31, 2018

Table 7

Expressed in thousands of NTD

(Except as otherwise indicated)

Significant inter-company transactions during the reporting periods:

| Number (Note 1) | Company name | Counterparty | Relationship (Note 2) | Transaction: General ledger account | Transaction: Amount | Transaction: Transaction terms | Transaction: Percentage of consolidated total operating revenues or total assets (Note 3) |
|---|---|---|---|---|---|---|---|
| 4 | Realtek Singapore Private Limited | Cortina Access, Inc. | 3 | Other payables | $ 19,128 | No similar transaction can be compared with. Transaction prices and terms are determined in accordance with mutual agreement. | 0.03% |
| 4 | 〃 | Cortina Network Systems Shanghai Co. Ltd. | 3 | Technical service fees | 108,117 | 〃 | 0.24% |
| 4 | 〃 | Cortina Network Systems Shanghai Co. Ltd. | 3 | Other payables | 25,791 | 〃 | 0.04% |
| 4 | 〃 | Cortina Systems Taiwan Limited | 3 | Technical service fees | 71,868 | 〃 | 0.16% |
| 4 | 〃 | Cortina Systems Taiwan Limited | 3 | Other payables | 6,300 | 〃 | 0.01% |
| 4 | 〃 | RayMX Microelectronics Corp. | 3 | Other receivables | 50,000 | 〃 | 0.09% |
| 4 | 〃 | RayMX Microelectronics Corp. | 3 | Gain on disposal of assets | 50,000 | 〃 | 0.11% |
| 5 | Cortina Access, Inc. | Leading Enterprises Limited | 3 | Interest revenue | 10,045 | Fund lending is in accordance with loan agreement terms. | 0.02% |
| 6 | Realtek Investment Singapore Private Limited | Realtek Singapore Private Limited | 3 | Other receivables | 739,129 | 〃 | 1.27% |

Note 1: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:

(1) Parent company is ‘0’.

(2) The subsidiaries are numbered in order starting from ‘1’.

Note 2: Relationship between transaction company and counterparty is classified into the following three categories; fill in the number of category each case belongs to (If transactions between parent company and subsidiaries or between subsidiaries refer to same transaction, it is not required to disclose twice. For example, if the parent company has already disclosed its transaction with a subsidiary, then the subsidiary is not required to disclose the transaction; for transactions between two subsidiaries, if one of the subsidiaries has disclosed the transaction, then the other is not required to disclose the transaction.):

(1) Parent company to subsidiary.

(2) Subsidiary to parent company.

(3) Subsidiary to subsidiary

Note 3: Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on period-end balance of transaction to consolidated total assets for balance sheet accounts and based on accumulated transaction amount for the period to consolidated total operating revenues for income statement accounts.

Note 4: Only transactions above NT$5 million are disclosed. Transactions of related parties are not further disclosed here.

REALTEK SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

Information on investees

Year ended December 31, 2018

Table 8

Expressed in thousands of NTD

(Except as otherwise indicated)

| Investor | Investee | Location | Main business activities | Initial investment amount: Balance as at December 31, 2018 | Initial investment amount: Balance as at December 31, 2017 | Shares held as at December 31, 2018: Number of shares | Shares held as at December 31, 2018: Ownership (%) | Shares held as at December 31, 2018: Book value | Net profit (loss) of the investee for the year ended December 31, 2018 | Investment income (loss) recognised by the Company for the year ended December 31, 2018 | Footnote |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Realtek Semiconductor Corporation | Leading Enterprises Limited | British Virgin Islands | Investment holdings | $ 15,318,249 | $ 14,877,139 | 39,130 | 100% | $ 10,903,503 | $ 564,881 | $ 564,881 | Subsidiary |
| Realtek Semiconductor Corporation | Amber Universal Inc. | British Virgin Islands | Investment holdings | 4,837,812 | 4,698,512 | 41,432 | 100% | 3,195,092 | 80,419 | 80,419 | Subsidiary |
| Realtek Semiconductor Corporation | Realtek Singapore Private Limited | Singapore | ICs manufacturing, design, research, development, sales, and marketing | 2,458,640 | 2,387,840 | 80,000,000 | 89.03% | 7,750,098 | 3,392,035 | 3,392,035 | Subsidiary |
| Realtek Semiconductor Corporation | Bluocean Inc. | Cayman Islands | Investment holdings | 3,382,167 | 3,284,772 | 110,050,000 | 100% | 3,440,632 | 88,525 | 88,525 | Subsidiary |
| Realtek Semiconductor Corporation | Talent Eagle Enterprise Inc. | Cayman Islands | Investment holdings | 3,506,635 | 3,405,657 | 114,100,000 | 100% | 2,916,363 | ( 299,912) | ( 299,912) | Subsidiary |
| Realtek Semiconductor Corporation | Realtek Investment Singapore Private Limited | Singapore | Investment holdings | 6,146,600 | 5,969,600 | 200,000,000 | 100% | 6,427,012 | 166,254 | 166,254 | Subsidiary |
| Realtek Semiconductor Corporation | Realsun Investments Co., Ltd. | Taiwan | Investment holdings | 280,000 | 280,000 | 28,000,000 | 100% | 437,910 | 6,793 | 6,793 | Subsidiary |
| Realtek Semiconductor Corporation | Hung-wei Venture Capital Co., Ltd. | Taiwan | Investment holdings | 250,000 | 250,000 | 25,000,000 | 100% | 374,178 | 6,315 | 6,315 | Subsidiary |
| Realtek Semiconductor Corporation | Realking Investments Limited | Taiwan | Investment holdings | 293,930 | 293,930 | 29,392,985 | 100% | 348,721 | ( 11,775) | ( 11,775) | Subsidiary |
| Realtek Semiconductor Corporation | Realsun Technology Corporatioin | Taiwan | ICs manufacturing, design, research, development, sales, and marketing | 5,000 | 5,000 | 500,000 | 100% | 5,563 | 46 | 46 | Subsidiary |
| Realtek Semiconductor Corporation | Bobitag Inc. | Taiwan | Manufacturing and installation of computer equipment and wholesasle, retail and related services of electronic materials and information/software | 20,000 | 20,000 | 1,918,910 | 66.67% | 19,214 | 37 | 25 | Subsidiary |
| Realtek Semiconductor Corporation | Technology Partner V Venture Capital Corporation | Taiwan | Investment holdings | 84,565 | 84,565 | 5,969,298 | 32.43% | 36,917 | ( 5,410) | ( 9,765) | Note 1 |
| Realtek Semiconductor Corporation | Estinet Technologies Incorporation | Taiwan | Research and development, design, manufacturing, sales and other services of electronic components,information/Software and integrated circuits. | 110,000 | 110,000 | 4,000,000 | 20.15% | 40,682 | ( 59,883) | ( 14,823) | Note 1 |
| Realtek Semiconductor Corporation | 5VTechnologies, Taiwan Ltd. | Taiwan | Research and development, design, manufacturing, sales and other services of electronic components,information/Software and integrated circuits. | 46,699 | 46,699 | 4,669,917 | 24.42% | 16,106 | 1,088 | ( 427) | Note 1 |
| Realking Investments Limited | Innorich Venture Capital Corp. | Taiwan | Venture capital activities | 200,000 | 200,000 | 20,000,000 | 37.38% | 167,923 | ( 48,797) | - | Note 1 |
| Leading Enterprises Limited | Realtek Semiconductor (Japan) Corp. | Japan | ICs deign,sales, and consultancy | 5,568 | 5,299 | 400 | 100% | 2,375 | 281 | - | Sub-Subsidiary |
| Leading Enterprises Limited | Circon Universal Inc. | Mauritius | Investment holdings | 1,991,498 | 1,934,150 | 64,800,000 | 100% | 8,315 | 58 | - | Sub-Subsidiary |

REALTEK SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

Information on investees

Year ended December 31, 2018

Table 8

Expressed in thousands of NTD

(Except as otherwise indicated)

| Investor | Investee | Location | Main business activities | Initial investment amount: Balance as at December 31, 2018 | Initial investment amount: Balance as at December 31, 2017 | Shares held as at December 31, 2018: Number of shares | Shares held as at December 31, 2018: Ownership (%) | Shares held as at December 31, 2018: Book value | Net profit (loss) of the investee for the year ended December 31, 2018 | Investment income (loss) recognised by the Company for the year ended December 31, 2018 | Footnote |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Leading Enterprises Limited | Realtek Singapore Private Limited | Singapore | ICs manufacturing, design, research, development, sales, and marketing | $ 1,283,769 | $ 1,246,801 | 9,856,425 | 10.97% | $ 961,014 | $ 3,392,035 | - | Sub-Subsidiary |
| Amber Universal Inc. | Realtek Semiconductor (HK) Limited | Hong Kong | Information services and technical support | 5,886 | 5,728 | - | 100% | 1,201 | ( 24) | - | Sub-Subsidiary |
| Realtek Singapore Private Limited | Empsonic Enterprises Inc. | Mauritius | Investment holdings | 868,207 | 843,206 | 2,825,000 | 100% | 1,407,954 | 145,372 | - | Sub-Subsidiary |
| Realtek Singapore Private Limited | Cortina Access Inc. | U.S.A | R&D and information services | 1,255,320 | 1,219,172 | 16,892 | 100% | 1,127,172 | 23,566 | - | Sub-Subsidiary |
| Realtek Singapore Private Limited | Cortina Systems Taiwan Limited | Taiwan | R&D and technical support | 61,466 | 59,696 | 21,130,000 | 100% | 62,379 | 7,005 | - | Sub-Subsidiary |
| Realtek Singapore Private Limited | Realtek Viet Nam Co., Ltd. | Vietnam | R&D and technical support | 30,733 | - | 1,000,000 | 100% | 28,592 | ( 1,000) | - | Sub-Subsidiary |
| Talent Eagle Enterprise Inc. | Ubilinx Technology Inc. | U.S.A | R&D and information services | 799,058 | 417,872 | 26,000,000 | 100% | 23,538 | ( 382,396) | - | Sub-Subsidiary |

Note 1：Investee

REALTEK SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

Information on investments in Mainland China

Year ended December 31, 2018

Table 9

Expressed in thousands of NTD

(Except as otherwise indicated)

| Investee in Mainland China | Main business activities | Paid-in Capital | Investment method (Note1) | Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018 | Amount remitted from Taiwan to Mainland China/Amount remitted back to Taiwan for the year ended December 31, 2018 | | Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018 | Net income of investee for the year ended December 31, 2018 | Ownership held by the Company (direct or indirect) | Investment income (loss) recognised by the Company for the year ended December 31, 2018 (Note2(2)C) | Book value of investment in Mainland China as of December 31, 2018 | Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018 | Footnote |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Remitted to Mainland China | Remitted back to Taiwan | | | | | | | |
| Cortina Network Systems Shanghai Co., Ltd. | R&D and technical support | $ 110,639 | 2 | $ 110,639 | $ - | $ - | $ 110,639 | $ 9,073 | 100% | $ 9,073 | $ 105,384 | $ - | |
| Realsil Microelectronics Corp. | R&D and technical support | 860,524 | 〃 | 860,524 | - | - | 860,524 | 151,804 | 100% | 151,804 | 1,403,037 | - | |
| Realtek Semiconductor (Shen Zhen) Corp. | R&D and technical support | 153,665 | 〃 | 153,665 | - | - | 153,665 | 18,565 | 100% | 18,565 | 240,899 | - | |
| RayMX Microelectronics Corp. | ICs manufacturing, design, research, development, sales, and marketing | 117,501 | 〃 | - | 117,501 | - | 117,501 | ( 1,130) | 100% | ( 1,130) | 116,391 | - | |

| Company name | Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018 | Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA) | Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA |
|---|---|---|---|
| Cortina Network Systems Shanghai Co., Ltd. | $ 110,639 | $ 110,639 | $ 14,788,140 |
| Realsil Microelectronics Corp. | 860,524 | 860,524 | |
| Realtek Semiconductor (Shan Zhen) Corp. | 153,665 | 153,665 | |
| RayMX Microelectronics Corp. | 117,501 | 117,501 | |

Note 1: Investment methods are classified into the following three categories; fill in the number of category each case belongs to:

(1) Directly invest in a company in Mainland China.

(2) Through investing in an existing company in the third area, which then invested in the investee in Mainland China.

(3) Others.

Note 2: In the ‘Investment income (loss) recognised by the Company for the year ended December 31, 2018’ column:

(1) It should be indicated if the investee was still in the incorporation arrangements and had not yet any profit during this period.

(2) Indicate the basis for investment income (loss) recognition in the number of one of the following three categories:

A. The financial statements that are audited and attested by international accounting firm which has cooperative relationship with accounting firm in R.O.C.

B. The financial statements that are audited and attested by R.O.C. parent company’s CPA.

C. Others.(Seif-edit financial statements)

Note 3: The numbers in this table are expressed in New Taiwan Dollars.

REALTEK SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

Significant transactions conducted with investees in Mainland China directly or indirectly through other companies in the third areas

Year ended December 31, 2018

Table 10

Expressed in thousands of NTD

(Except as otherwise indicated)

| | Technical service fees | Property transaction | | Accounts receivable (payable) | | Provision of endorsements/guarantees or collaterals | | Financing | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Investee in Mainland China | Amount | Amount | % | Balance at December 31, 2018 | % | Balance at December 31, 2018 | Purpose | Maximum balance during the year ended December 31, 2018 | Balance at December 31, 2018 | Interest rate | Interest during the year ended December 31, 2018 | Others |
| Realsil Microelectronics Corp. | $ 1,395,502 | $ - | - | $ 58,171 | 0.11 | $ - | - | $ - | $ - | - | $ - | |
| Realtek Semicomductor (Shen Zhen) Corp. | 270,803 | - | - | 11,236 | 0.02 | - | - | - | - | - | - | |
| Cortina Network Systems Shanghai Co., Ltd. | 108,117 | - | - | 19,128 | 0.03 | - | - | - | - | - | - | |
| RayMX Microelectronics Corp. | - | 100,000 | 0.22 | 100,000 | 0.18 | 1,319,937 | Operations | - | - | - | - | |