REALTEK SEMICONDUCTOR CORPORATION

PARENT COMPANY ONLY FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT ACCOUNTANTS

DECEMBER 31, 2018 AND 2017

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

PWCR18000389

To the Board of Directors and Shareholders of Realtek Semiconductor Corporation

Opinion

We have audited the accompanying parent company only balance sheets of Realtek Semiconductor Corporation (the "Company") as at December 31, 2018 and 2017, and the related parent company only statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the parent company only 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 parent company only financial statements present fairly, in all material respects, the parent company only financial position of the Company as at December 31, 2018 and 2017, and its parent company only financial performance and its parent company only cash flows for the years then ended in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers".

Basis for opinion

We conducted our audits in accordance with the "Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants" and 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 Parent Company Only Financial Statements section of our report. We are independent of the Company 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 parent company only financial statements of the current period. These matters were addressed in the context of our audit of the parent company only 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(13) of the parent company only financial statements for inventory evaluation policies, Note 5(2) for uncertainty of accounting estimates and assumptions of inventory evaluation and Note 6(3) for the details of inventories.

The Company 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(5) of the parent company only financial statements for accounting policies and Note 6(1) for the details of cash and cash equivalents.

The amount of the Company's cash and cash equivalents is significant to the parent company only financial statements, and the nature and usage of those cash and cash equivalents varies. The cash in banks are deposited with various domestic and 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 investments accounted for using the equity method. Those financial statements were audited by other independent accountants whose report thereon have been furnished to us, and our opinion expressed herein is based solely on the audit reports of the other independent accountants. Investments accounted for using equity method amounted to NT$6,900,458 thousand and NT$6,619,491 thousand as of December 31, 2018 and 2017, constituting 12.78% and 13.10% of total assets, respectively. Comprehensive income amounted to NT$108,408 thousand and NT$79,436 thousand, for the years ended December 31, 2018 and 2017, respectively.

Responsibilities of management and those charged with governance for the parent company only financial statements

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

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

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

Independent accountant's responsibilities for the audit of the parent company only financial statements

Our objectives are to obtain reasonable assurance about whether the parent company only 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 parent company only 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 parent company only financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error,

as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the parent company only 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 Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the parent company only financial statements, including the disclosures, and whether the parent company only 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 Company to express an opinion on the parent company only financial statements. We are responsible for the direction, supervision and performance of the company 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 parent company only 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.

Hsueh, Seou-Hung	Li, Tien-Yi

For and on behalf of PricewaterhouseCoopers, Taiwan

March 21, 2019

The accompanying parent company only financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying parent company only financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

REALTEK SEMICONDUCTOR CORPORATION
PARENT COMPANY ONLY 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)	$ 1,553,365	3	$ 735,254	1
1110	Financial assets at fair value through profit or loss - current		29,061	-	-	-
1136	Financial assets at amortised cost - current	8	61,401	-	-	-
1170	Accounts receivable, net	6(2)	4,307,547	8	2,789,923	6
1180	Accounts receivable, net - related parties	6(2) and 7(3)	1,033,782	2	941,236	2
1200	Other receivables		42,641	-	18,735	-
1210	Other receivables - related parties	7	2,688,329	5	3,439,082	7
130X	Inventories, net	6(3)	4,096,647	8	4,324,420	9
1410	Prepayments		149,935	-	247,142	-
1470	Other current assets	8	-	-	91,655	-
11XX	**Total current assets**		13,962,708	26	12,587,447	25
	Non-current assets					
1517	Financial assets at fair value through other comprehensive income – non-current		936	-	-	-
1523	Available-for-sale financial assets - non-current		-	-	40,344	-
1543	Financial assets carried at cost - non-current		-	-	6,575	-
1550	Investments accounted for under equity method	6(4)	35,911,991	67	33,631,364	67
1600	Property, plant and equipment, net	6(5)	2,863,756	5	2,679,455	5
1780	Intangible assets	6(6)	1,160,549	2	1,495,547	3
1840	Deferred income tax assets	6(21)	78,472	-	65,551	-
1900	Other non-current assets		14,444	-	6,456	-
15XX	**Total non-current assets**		40,030,148	74	37,925,292	75
1XXX	**Total assets**		$ 53,992,856	100	$ 50,512,739	100

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REALTEK SEMICONDUCTOR CORPORATION
PARENT COMPANY ONLY 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(7)	$ 14,526,311	27	$ 18,052,624	36
2130	Contract liabilities - current	6(15)	110,764	-	-	-
2150	Notes payable		8,657	-	8,631	-
2170	Accounts payable		3,793,276	7	3,783,139	7
2180	Accounts payable - related parties	7	228,279	-	282,667	1
2200	Other payables	6(8)	6,867,842	13	5,624,505	11
2220	Other payables - related parties	7	38,283	-	32,156	-
2230	Current income tax liabilities		578,088	1	326,648	1
2300	Other current liabilities	6(15)	2,581,910	5	88,847	-
21XX	**Total current liabilities**		28,733,410	53	28,199,217	56
	Non-current liabilities					
2550	Provisions - non-current	6(10)	519,016	1	434,425	1
2570	Deferred income tax liabilities	6(21)	22,310	-	21,749	-
2600	Other non-current liabilities	6(9)	80,828	-	7,830	-
25XX	**Total non-current liabilities**		622,154	1	464,004	1
2XXX	**Total Liabilities**		29,355,564	54	28,663,221	57
	Equity					
	Share capital	6(11)				
3110	Common shares		5,080,955	10	5,065,062	10
	Capital surplus	6(12)				
3200	Capital surplus		3,236,659	6	3,558,856	7
	Retained earnings	6(13)				
3310	Legal reserve		4,467,099	8	4,127,884	8
3320	Special reserve		600,443	1	-	-
3350	Undistributed earnings		10,850,172	20	9,698,159	19
	Other equity	6(14)				
3400	Other equity interest		401,964	1	(600,443)	(1)
3XXX	**Total equity**		24,637,292	46	21,849,518	43
3X2X	**Total liabilities and equity**		$ 53,992,856	100	$ 50,512,739	100

The accompanying notes are an integral part of these parent company only financial statements.

REALTEK SEMICONDUCTOR CORPORATION
PARENT COMPANY ONLY 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(15) and 7	$ 32,194,291	100	$ 30,043,540	100
5000	**Operating costs**	6(3)	(18,906,196)	(59)	(17,875,296)	(59)
5900	**Gross profit**		13,288,095	41	12,168,244	41
	Operating expenses	6(19)(20) and 7				
6100	Selling expenses		(1,646,985)	(5)	(1,514,098)	(5)
6200	General and administrative expenses		(991,577)	(3)	(866,053)	(3)
6300	Research and development expenses		(9,955,350)	(31)	(8,889,291)	(30)
6450	Expected credit gains	12(2)	5,803	-	-	-
6000	**Total operating expenses**		(12,588,109)	(39)	(11,269,442)	(38)
6900	**Operating income**		699,986	2	898,802	3
	Non-operating income and expenses					
7010	Other income	6(16) and 7	112,353	1	107,449	-
7020	Other gains and losses	6(17)	(1,992)	-	(431,101)	(1)
7050	Finance costs	6(18)	(140,170)	-	(147,941)	(1)
7070	Share of profit of associates and joint ventures accounted for using equity method, net	6(4)	3,968,591	12	3,174,944	11
7000	**Total non-operating income and expenses**		3,938,782	13	2,703,351	9
7900	**Profit before income tax, net**		4,638,768	15	3,602,153	12
7950	Income tax expense	6(21)	(288,000)	(1)	(210,000)	(1)
8200	**Net income for the year**		$ 4,350,768	14	$ 3,392,153	11
	Other comprehensive income	6(14)				
	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		(138)	-	-	-
8330	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		(163,544)	(1)	-	-
			(239,491)	(1)	-	-
	Components of other comprehensive income that will be reclassified to profit or loss					
8362	Other comprehensive income, before tax, available-for-sale financial assets		-	-	(3,247)	-
8380	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		942,974	3	(1,998,745)	(6)
8360	**Components of other comprehensive income that will be reclassified to profit or loss**		942,974	3	(2,001,992)	(6)
8300	**Other comprehensive income (loss) for the year**		$ 703,483	2	($ 2,001,992)	(6)
8500	**Total comprehensive income for the year**		$ 5,054,251	16	$ 1,390,161	5
	Earnings Per Share (in dollars)	6(22)				
9750	**Basic earnings per share**		$	8.57	$	6.71
9850	**Diluted earnings per share**		$	8.40	$	6.57

The accompanying notes are an integral part of these parent company only financial statements.

Realtek Semiconductor Corporation
PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

				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 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
Net income for the year		-	-	-	-	3,392,153	-	-	-	3,392,153
Other comprehensive income (loss)	6(14)	-	-	-	-	-	(2,111,302)	-	109,310	(2,001,992)
Total comprehensive income		-	-	-	-	3,392,153	(2,111,302)	-	109,310	1,390,161
Distribution of 2016 earnings										
Legal reserve		-	-	303,988	-	(303,988)	-	-	-	-
Cash dividends	6(13)	-	-	-	-	(2,019,805)	-	-	-	(2,019,805)
Employees' compensation transferred to common stock		15,549	145,386	-	-	-	-	-	-	160,935
Cash dividends from capital surplus	6(12)	-	(504,951)	-	-	-	-	-	-	(504,951)
Changes in equity of associates accounted for using equity method	6(12)	-	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
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
Modified retrospective approach adjustment	6(14)	-	-	-	-	103,142	-	435,835	(212,720)	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
Net income for the year		-	-	-	-	4,350,768	-	-	-	4,350,768
Other comprehensive income (loss)	6(14)	-	-	-	-	(75,809)	942,974	(163,682)	-	703,483
Total comprehensive income		-	-	-	-	4,274,959	942,974	(163,682)	-	5,054,251
Distribution of 2017 earnings										
Legal reserve		-	-	339,215	-	(339,215)	-	-	-	-
Special reserve		-	-	-	600,443	(600,443)	-	-	-	-
Cash dividends	6(13)	-	-	-	-	(2,286,430)	-	-	-	(2,286,430)
Employees' compensation transferred to common stock		15,893	163,692	-	-	-	-	-	-	179,585
Cash dividends from capital surplus	6(12)	-	(508,095)	-	-	-	-	-	-	(508,095)
Changes in equity of associates accounted for using equity method	6(12)	-	22,005	-	-	-	-	-	-	22,005
Cash dividends returned		-	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

The accompanying notes are an integral part of these parent company only financial statements.

REALTEK SEMICONDUCTOR CORPORATION
PARENT COMPANY ONLY 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		$ 4,638,768	$ 3,602,153
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation	6(19)	470,049	422,595
Amortization	6(19)	943,734	1,007,187
Expected credit gains	12(2)	(5,803)	-
Provision for doubtful accounts		-	19,424
Interest expense	6(18)	140,170	147,941
Interest income	6(16)	(66,668)	(44,065)
Dividend income	6(16)	(812)	(406)
Loss on financial assets at fair value through profit or loss	6(17)	11,283	-
Share of loss of associates and joint ventures accounted for using equity method	6(4)	(3,968,591)	(3,174,944)
Gain on disposal of property, plant and equipment	6(17)	-	(14,269)
Other intangible assets transferred to expenses		7,698	18,203
Changes in operating assets and liabilities			
Changes in operating assets			
Accounts receivable, net		527,028	(906,911)
Accounts receivable, net - related parties		53,312	(673,854)
Other receivables, net		(23,639)	(12,170)
Other receivables, net - related parties		(67,713)	1,957,128
Inventories		227,773	(1,120,140)
Prepayments		97,207	(40,855)
Changes in operating liabilities			
Contract liabilities-current		21,541	-
Notes payable		26	3,862
Accounts payable		10,137	504,642
Accounts payable - related parties		(54,388)	109,405
Other payables		1,310,009	324,700
Other payables - related parties		6,126	11,724
Provisions - non-current	6(10)	84,591	94,060
Other current liabilities		397,579	30,688
Accrued pension obligations		(2,507)	(3,427)

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REALTEK SEMICONDUCTOR CORPORATION
PARENT COMPANY ONLY 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		$ 4,756,910	$ 2,262,671
Receipt of interest		66,401	47,477
Interest paid		(138,304)	(145,767)
Income taxes paid		(48,920)	(193,046)
Receipt of dividend		812	406
Net cash flows from operating activities		4,636,899	1,971,741
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of amortised cost of a financial asset		30,254	-
Acquisition of investments accounted for using equity method		-	(8,427,063)
Proceeds from capital reduction of financial assets at cost		-	6,622
Proceeds from capital reduction of investee accounted for using the equity method	6(4)	-	14,923
Acquisition of cash dividends from investments accounted for using equity method	7	5,436,741	15,165
Acquisition of property, plant and equipment	6(23)	(578,076)	(406,706)
Proceeds from disposal of property, plant and equipment		-	14,269
Acquisition of intangible assets	6(23)	(581,659)	(879,239)
(Increase) decrease in other receivables, net - related parties		(1,797,119)	3,265,621
Increase in refundable deposits		(7,988)	(100)
Increase in other current assets		-	(36,240)
Net cash flows from (used in) investing activities		2,502,153	(6,432,748)
CASH FLOWS FROM FINANCING ACTIVITIES			
(Decrease) increase in short-term borrowings	6(24)	(3,526,313)	2,857,624
Guarantee deposits received	6(24)	(304)	(862)
Cash dividends paid	6(13)	(2,794,525)	(2,524,756)
Cash dividends returned		201	-
Net cash flows (used in) from financing activities		(6,320,941)	332,006
Net increase (decrease) in cash and cash equivalents		818,111	(4,129,001)
Cash and cash equivalents at beginning of year		735,254	4,864,255
Cash and cash equivalents at end of year		$ 1,553,365	$ 735,254

The accompanying notes are an integral part of these parent company only financial statements.

REALTEK SEMICONDUCTOR CORPORATION
NOTES TO THE PARENT COMPANY ONLY 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 is 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 PARENT COMPANY ONLY FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORISATION

These parent company only 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 Company's financial condition and financial performance based on the Company'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 Company 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 Company 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 Company 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 Company 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	($ 2,184,707)	$ 2,184,707	$ -	i(i)
Total affected assets	($ 2,184,707)	$ 2,184,707	$ -	
Contract liabilities	$ -	($ 89,223)	($ 89,223)	i(ii)
Advance sales receipts	(89,223)	89,223	-	i(ii)
Refund liabilities - current	-	(2,184,707)	(2,184,707)	i(i)
Total affected liabilities	($ 89,223)	($ 2,184,707)	($ 2,273,930)	

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

In line with IFRS 15 requirements, the Company 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 $2,184,707.

(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 $89,223.

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 Company has provided additional disclosure to explain the changes in liabilities arising from financing activities, as described in Note 6(24).

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

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 Company's financial condition and financial performance based on the Company'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 Company expects to recognise the lease contract of lessees in line with IFRS 16. However, the Company 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 $731,972 and $731,972, 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 Company's financial condition and financial performance based on the Company's assessment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

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

(2) Basis of preparation

A. Except for the following items, the parent company only 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 Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the parent company only financial statements are disclosed in Note 5.

C. In adopting IFRS 9 and IFRS 15 effective January 1, 2018, the Company 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) Foreign currency translation

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The parent company only 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 Company 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 Company 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.

(4) <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.

(5) <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.

(6) <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 Company measures the financial assets at fair value and recognises the transaction costs in profit or loss. The Company subsequently measures the financial assets at fair value, and recognises the gain or loss in profit or loss.

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

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

Effective 2018

A. Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and for which the Company 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 Company'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 Company measures the financial assets at fair value plus transaction costs. The Company 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 Company and the amount of the dividend can be measured reliably.

(8) Financial assets at amortised cost

Effective 2018

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

(a) The objective of the Company'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 Company 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 Company'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.

(9) Accounts receivable

A. Accounts receivable entitle the Company 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.

(10) Impairment of financial assets

For debt instruments measured at fair value through other comprehensive income and financial assets at amortised cost, at each reporting date, the Company 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 Company recognises the impairment provision for lifetime ECLs.

(11) Derecognition of financial assets

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

(12) 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.

(13) 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.

(14) Investments accounted for using equity method / associates

A. Subsidiaries are all entities controlled by the Company. The Company controls an entity when the Company 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.

B. Unrealised profit (loss) occurred from the transactions between the Company and subsidiaries have been offset. The accounting policies of the subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Company.

C. The Company's share of its subsidiaries' 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 Company's share of losses in a subsidiary equals or exceeds its interest in the subsidiary, the Company continues to recognize losses proportionate to its ownership.

D. If changes in the Company's shares in subsidiaries do not result in loss in control (transactions with non-controlling interest), transactions shall be considered as equity transactions, which are transactions between owners. Difference of adjustment of non-controlling interest and fair value of consideration paid or received is recognised in equity.

E. Upon loss of significant influence over a subsidiary, the Company remeasures any investment retained in the former subsidiary at its fair value. Any difference between fair value and carrying amount is recognised in profit or loss. The amount previously recognised in other comprehensive income in relation to the subsidiary is reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. When the Company loses significant influence over the subsidiary, the profit or loss is reclassified from equity to profit or loss.

F. Associates are all entities over which the Company 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.

G. The Company'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 Company's share of losses in an associate equals or exceeds its interest in the associate (including any other unsecured receivables), the Company does not recognise further losses, unless it has incurred statutory/constructive obligations or made payments on behalf of the associate.

H. 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 Company's ownership percentage of the associate, the Company recognises the Company's share of change in equity of the associate in 'capital surplus' in proportion to its ownership.

I. Unrealised gains on transactions between the Company and its associates are eliminated to the extent of the Company'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 consistencywith the policies adopted by the Company.

J. In the case that an associate issues new shares and the Company does not subscribe or acquire new shares proportionately, which results in a change in the Company'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 Company'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.

K. When the Company 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.

L. 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.

M. Pursuant to the "Regulations Governing the Preparation of Financial Reports by Securities Issuers," profit (loss) of the current period and other comprehensive income in the parent company only financial statements shall equal to the amount attributable to owners of the parent in the parent company only financial statements. Owners' equity in the parent company only financial statements shall equal to equity attributable to owners of the parent in the parent company only financial statements.

(15) 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 Company 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.

(16) 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.

(17) Intangible assets

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 parent company only acquired intangible assets were amortised on a straight-line basis over their estimated useful lives of 2-5 years.

(18) Borrowings

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

(19) 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.

(20) 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.

(21) Provisions

Provisions are recognised when the Company 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.

(22) 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 Company calculates the number of shares based on the closing price at the previous day of the Board meeting resolution.

(23) <u>Income tax</u>

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 parent company only 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 Company 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. If a change in tax rate is enacted or substantively enacted, the Company 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.

(24) 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.

(25) 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.

(26) Revenue recognition

A. Sales of goods

(a) The Company 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 Company 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 Company 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.

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

The preparation of these parent company only financial statements requires management to make critical judgements in applying the Company'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 Company'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 Company must determine the net realisable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Company 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 $4,096,647.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2018	December 31, 2017
Cash on hand and revolving funds	$ 1,554	$ 1,554
Checking accounts and demand deposits	1,551,811	733,700
Total	$ 1,553,365	$ 735,254

The Company 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) Accounts receivable

	December 31, 2018	December 31, 2017
Accounts receivable	$ 4,351,094	$ 4,878,122
Accounts receivable – related parties	1,044,224	1,097,536
Less: allowance for sales returns and discounts	-	(2,184,707)
Less: allowance for bad debts	(53,989)	(59,792)
	$ 5,341,329	$ 3,731,159

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

	December 31, 2018	December 31, 2017
	Accounts receivable	Accounts receivable
Not past due	$ 5,386,539	$ 5,915,588
Up to 30 days	8,743	60,034
Over 180 days	36	36
	$ 5,395,318	$ 5,975,658

The above aging analysis is based on past due date.

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

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

(3) Inventories

	December 31, 2018		
	Cost	Allowance for obsolescence and market value decline	Book value
Raw materials	$ 224,177	($ 23,147)	$ 201,030
Work in process	2,814,518	(218,774)	2,595,744
Finished goods	1,640,931	(341,058)	1,299,873
Total	$ 4,679,626	($ 582,979)	$ 4,096,647

	December 31, 2017		
	Cost	Allowance for obsolescence and market value decline	Book value
Raw materials	$ 335,223	($ 31,644)	$ 303,579
Work in process	2,320,386	(210,859)	2,109,527
Finished goods	2,149,464	(238,150)	1,911,314
Total	$ 4,805,073	($ 480,653)	$ 4,324,420

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

	Years ended December 31, 2018	Years ended December 31, 2017
Cost of inventories sold and others	$ 18,601,009	$ 17,564,700
Loss on market value decline and obsolete and slow-moving inventories	102,326	177,627
Loss on scrap inventory	202,861	132,969
	$ 18,906,196	$ 17,875,296

(4) Investments accounted for using the equity method

	December 31, 2018	December 31, 2017
Subsidiaries:		
Leading Enterprisese Limited	$ 10,903,503	$ 9,846,737
Amber Universal Inc.	3,195,092	2,934,556
Realtek Singapore Private Limited	7,750,098	6,962,475
Realtek Investment Singapore Private Limited	6,427,012	6,077,940
Talent Eagle Enterprise Inc.	2,916,363	3,129,056
Bluocean Inc.	3,440,632	3,397,551
Realsun Investments Co., Ltd.	437,910	409,101
Hung-wei Venture Capital Co., Ltd.	374,178	441,246
Realking Investments Limited	348,721	313,208
Realsun Technology Corporatioin	5,563	5,517
Bobitag Inc.	19,214	19,189
Associates:		
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
	$ 35,911,991	$ 33,631,364

A. Subsidiaries

Details of the Company's subsidiaries are provided in Note 4(3) in the Company's 2018 consolidated financial statements.

B. The gain on investments accounted for using equity method amounted to $3,968,591 and $3,174,944 for the years ended December 31, 2018 and 2017, respectively.

C. The Company'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.

(5) Property, plant and equipment

	Buildings	Machinery	Test equipment	Office equipment	Others	Total
At January 1, 2018						
Cost	$ 2,518,099	$ 3,576,741	$ 1,487,712	$ 155,991	$ 663,079	$ 8,401,622
Accumulated depreciation and impairment	(776,967)	(3,351,878)	(1,032,998)	(98,600)	(461,724)	(5,722,167)
	$ 1,741,132	$ 224,863	$ 454,714	$ 57,391	$ 201,355	$ 2,679,455
2018						
Opening net book amount	$ 1,741,132	$ 224,863	$ 454,714	$ 57,391	$ 201,355	$ 2,679,455
Additions	6,238	117,365	414,633	33,630	83,470	655,336
Reclassifications	50,407	-	-	(986)	(50,407)	(986)
Depreciation	(101,292)	(84,100)	(219,983)	(18,408)	(46,266)	(470,049)
Closing net book amount	$ 1,696,485	$ 258,128	$ 649,364	$ 71,627	$ 188,152	$ 2,863,756
At December 31, 2018						
Cost	$ 2,574,744	$ 3,694,106	$ 1,899,377	$ 188,464	$ 696,142	$ 9,052,833
Accumulated depreciation and impairment	(878,259)	(3,435,978)	(1,250,013)	(116,837)	(507,990)	(6,189,077)
	$ 1,696,485	$ 258,128	$ 649,364	$ 71,627	$ 188,152	$ 2,863,756

	Buildings	Machinery	Test equipment	Office equipment	Others	Total
At January 1, 2017						
Cost	$ 2,518,099	$ 3,550,579	$ 1,294,771	$ 139,523	$ 577,046	$ 8,080,018
Accumulated depreciation and impairment	(679,068)	(3,350,895)	(845,291)	(83,167)	(421,266)	(5,379,687)
	$ 1,839,031	$ 199,684	$ 449,480	$ 56,356	$ 155,780	$ 2,700,331
2017						
Opening net book amount	$ 1,839,031	$ 199,684	$ 449,480	$ 56,356	$ 155,780	$ 2,700,331
Additions	-	99,351	194,819	16,468	91,081	401,719
Reclassifications	-	5,058	(10)	-	(5,048)	-
Depreciation	(97,899)	(79,230)	(189,575)	(15,433)	(40,458)	(422,595)
Closing net book amount	$ 1,741,132	$ 224,863	$ 454,714	$ 57,391	$ 201,355	$ 2,679,455
At December 31, 2017						
Cost	$ 2,518,099	$ 3,576,741	$ 1,487,712	$ 155,991	$ 663,079	$ 8,401,622
Accumulated depreciation and impairment	(776,967)	(3,351,878)	(1,032,998)	(98,600)	(461,724)	(5,722,167)
	$ 1,741,132	$ 224,863	$ 454,714	$ 57,391	$ 201,355	$ 2,679,455

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

(6) Intangible assets

	Computer software	Intellectual property	Others	Total
At January 1, 2018				
Cost	$ 2,759,363	$ 3,558,380	$ 11,909	$ 6,329,652
Accumulated amortisation and impairment	(2,229,775)	(2,604,330)	-	(4,834,105)
	$ 529,588	$ 954,050	$ 11,909	$ 1,495,547
2018				
Opening net book amount	$ 529,588	$ 954,050	$ 11,909	$ 1,495,547
Additions	460,145	153,503	1,800	615,448
Transfers	1,353	2,096	(10,161)	(6,712)
Amortisation	(495,561)	(448,173)	-	(943,734)
Closing net book amount	$ 495,525	$ 661,476	$ 3,548	$ 1,160,549
At December 31, 2018				
Cost	$ 3,220,861	$ 3,713,979	$ 3,548	$ 6,938,388
Accumulated amortisation and impairment	(2,725,336)	(3,052,503)	-	(5,777,839)
	$ 495,525	$ 661,476	$ 3,548	$ 1,160,549

	Computer software	Intellectual property	Others	Total
At January 1, 2017				
Cost	$ 2,327,690	$ 3,075,896	$ 28,016	$ 5,431,602
Accumulated amortisation and impairment	(1,729,105)	(2,097,813)	-	(3,826,918)
	$ 598,585	$ 978,083	$ 28,016	$ 1,604,684
2017				
Opening net book amount	$ 598,585	$ 978,083	$ 28,016	$ 1,604,684
Additions	431,673	482,484	2,096	916,253
Transfers	-	-	(18,203)	(18,203)
Amortisation	(500,670)	(506,517)	-	(1,007,187)
Closing net book amount	$ 529,588	$ 954,050	$ 11,909	$ 1,495,547
At December 31, 2017				
Cost	$ 2,759,363	$ 3,558,380	$ 11,909	$ 6,329,652
Accumulated amortisation and impairment	(2,229,775)	(2,604,330)	-	(4,834,105)
	$ 529,588	$ 954,050	$ 11,909	$ 1,495,547

Details of amortisation on intangible assets are as follows:

	Years ended December 31,	
	2018	2017
Operating costs	$ 3,907	$ 2,314
Operating expenses	939,827	1,004,873
	$ 943,734	$ 1,007,187

(7) 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 $140,170 and $147,941 for the years ended December 31, 2018 and 2017, respectively.

(8) Other payables

	December 31, 2018	December 31, 2017
Accrued salaries	$ 3,043,992	$ 2,209,370
Payable for employees' compensation	1,881,190	1,799,529
Other accrued expenses	965,327	819,431
Payables on equipment	110,401	33,141
Payables on software and intellectual property	684,438	650,649
Others	182,494	112,385
	$ 6,867,842	$ 5,624,505

(9) Pension

A. (a) The Company has 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 contributes 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 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 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 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 Company 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 has 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 contributes 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 pension costs under the defined contribution pension plans of the Company for the years ended December 31, 2018 and 2017 were $223,627 and $205,411, respectively.

(10) Provision

		Year ended December 31, 2018
At January 1	$	434,425
Changes in provision		84,591
At December 31	$	519,016

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

(11) 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.

(12) 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	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

(13) 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(20).

(14) 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)

(15) Operating revenue

	Year ended December 31, 2018	Year ended December 31, 2017
Revenue from contracts with customers	$ 32,194,291	$ 30,043,540

A. Disaggregation of revenue from contracts with customers

The Company 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	$ 32,125,500	$ 68,791	$ 32,194,291
Timing of revenue recognition			
At a point in time	$ 32,125,500	$ 68,791	$ 32,194,291

B. Contract liabilities

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

	December 31, 2018
Contract liabilities – advance sales receipts	$ 110,764

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	$ 77,338

C. Refund liabilities

The Company 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	$ 2,581,910

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

(16) Other income

	Years ended December 31,	
	2018	2017
Interest income:		
Interest income from bank deposits	$ 22,694	$ 17,957
Other interest income	43,974	26,108
Total interest income	66,668	44,065
Rent income	20,636	26,153
Dividend income	812	406
Other income	24,237	36,825
Total	$ 112,353	$ 107,449

(17) Other gains and losses

	Years ended December 31, 2018	Years ended December 31, 2017
Gains on disposal of property, plant and equipment	$ -	$ 14,269
Net currency exchange gains (losses)	14,331	(441,270)
Losses on financial assets at fair value through profit or loss	(11,283)	-
Other losses	(5,040)	(4,100)
Total	($ 1,992)	($ 431,101)

(18) Finance costs

	Years ended December 31, 2018	Years ended December 31, 2017
Interest expense	$ 140,170	$ 147,941

(19) Expenses by nature

	Years ended December 31, 2018	Years ended December 31, 2017
Employee benefit expenses	$ 8,731,937	$ 7,234,741
Depreciation charges on property, plant and equipment	$ 470,049	$ 422,595
Amortisation charges on intangible assets	$ 943,734	$ 1,007,187

(20) Employee benefit expenses

	Years ended December 31, 2018	Years ended December 31, 2017
Wages and salaries	$ 7,985,523	$ 6,554,504
Labor and health insurance fees	364,845	334,162
Pension costs	227,120	208,642
Other personnel expenses	154,449	137,433
Total	$ 8,731,937	$ 7,234,741

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' 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.

(21) Income tax

A. Income tax expense

	Years ended December 31,	
	2018	2017
Current income tax:		
Current income tax on profits for the year	$ 445,349	$ 142,793
Income tax on undistributed surplus earnings	16,607	71,608
Prior year income tax over estimation	(35,671)	(88,357)
Total current income tax	426,285	126,044
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	$ 288,000	$ 210,000

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	$ 927,754	$ 612,366
Effects from tax-exempt income	(494,765)	(385,617)
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	$ 288,000	$ 210,000

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	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	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. The Company'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.

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

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 Company has assessed the impact of the change in income tax rate.

(22) 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

(23) 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	$ 655,336	$ 401,719
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	$ 578,076	$ 406,706

	Years ended December 31, 2018	Years ended December 31, 2017
Purchase of intangible assets	$ 615,448	$ 916,253
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	$ 581,659	$ 879,239

(24) Changes in liabilities from financing activities

	Short-term borrowings	Guarantee deposits received	Liabilities from financing activities-gross
At January 1, 2018	$ 18,052,624	$ 5,043	$ 18,057,667
Changes in cash flow from financing activities	(3,526,313)	(304)	(3,526,617)
At December 31, 2018	$ 14,526,311	$ 4,739	$ 14,531,050

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

Names of related parties	Relationship with the Company
Leading Enterprises Limited	Subsidiary
Realtek Singapore Private Limited	Subsidiary
Bluocean Inc.	Subsidiary
Talent Eagle Enterprise Inc.	Subsidiary
Cortina Systems Taiwan Limited	Subsidiary
RayMX Micro Electronics, Corp.	Subsidiary
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

(2) Significant related party transactions and balances

A. Operating revenue

	Years ended December 31,	
	2018	2017
Sales of goods：		
Other related parties		
G.M.I Technology Inc.	$ 4,888,451	$ 4,835,351
Others	427,950	379,088
	$ 5,316,401	$ 5,214,439

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	2017
Greatek Electronics Inc.	$ 887,456	$ 811,657

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.	$ 980,790	$ 906,884
Other	52,992	34,352
	$ 1,033,782	$ 941,236

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

D. Payables to related parties:

	Years ended December 31, 2018	Years ended December 31, 2017
Accounts payable：		
Greatek Electronics Inc.	$ 228,279	$ 282,667

The payment term above was 69 days after monthly billings. The payables to related parties arise mainly from processing cost. The payables are unsecured in nature and 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	$ 206,978	$ 38,283	$ 209,918	$ 32,156
Technical royalty revenue	($ 7,799)	$ -	($ 3,086)	$ -
Cash dividends income	($ 19,420)	$ -	($ 406)	$ -
Subsidiaries and sub-subsidiaries-				
Other income	($ 50,000)	($ 50,000)	$ -	$ -
Cash dividends income	($ 2,745,981)	$ -	($ 2,665,586)	($ 2,657,395)
Rent income	($ 1,883)	($ 241)	($ 1,894)	($ 246)

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

F. Loans to related parties:

(a) Loans to related parties:

(i) Outstanding balance:

	December 31, 2018	December 31, 2017
Subsidiaries		
Leading Enterprises Limited	$ 365,921	$ -
Bluocean Inc.	623,009	597,091
Talent Eagle Enterprise Inc.	1,649,158	184,350
	$ 2,638,088	$ 781,441

(ii) Interest income

	2018	2017
Subsidiaries	$ 43,612	$ 26,417

The loans to subsidiaries are repayable monthly over 1 years and carry interest are 3.3% per annum for the years ended December 31, 2018 and 2017.

G. Endorsements and guarantees provided to related parties:

	December 31, 2018	December 31, 2017
Subsidiaries	$ 10,106,104	$ 10,754,575

(3) 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 Company'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
"	-	30,846	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
"	31,131	-	Guarantee for leasing land and office in Science Park
	$ 61,401	$ 91,655	

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

(1) Contingencies

None.

(2) Operating lease agreements

The Company leases lands and office buildings for operational needs under non-cancellable operating lease agreements. The lease terms are between 2022 and 2027. Most of the lease agreements are renewable at the market price at the end of the lease period. The Company recognised rental expense of $28,434 and $23,368 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	$ 24,761	$ 23,899
Later than one year but not later than five years	84,262	95,596
Later than five years	39,910	45,575
	$ 148,933	$ 165,070

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

12. OTHERS

(1) Capital management

The Company's objectives when managing capital are to safeguard the Company'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	$ 29,061	$ -
Financial assets at fair value through other comprehensive income		
Designation of equity instrument	$ 936	$ -
Available-for-sale financial assets		
Available-for-sale financial assets	$ -	$ 40,344
Financial assets at cost	-	6,575
	$ -	$ 46,919
Financial assets at amortised cost/Receivables		
Cash and cash equivalents	$ 1,553,365	$ 735,254
Financial assets at amortised cost	61,401	-
Accounts receivable (including related parties)	5,341,329	3,731,159
Other receivables (including related parties)	2,730,970	3,457,817
Guarantee deposits paid	14,444	6,456
Other current assets	-	91,655
	$ 9,701,509	$ 8,022,341

	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)	4,021,555	4,065,806
Other accounts payable (including related parties)	6,906,125	5,656,661
Guarantee deposits received	4,739	5,043
	$ 25,467,387	$ 27,788,765

B. Financial risk management policies

(a) The Company'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 Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial position and financial performance.

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

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

i. The Company 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 Company to manage its foreign exchange risk against its functional currency. The Company is required to hedge its entire foreign exchange risk exposure with the Company treasury.

iii. The Company'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	$ 234,227	30.733	$ 7,198,500
Investments accounted for using the equity method			
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	$ 322,429	29.848	$ 9,623,857
Investments accounted for using the equity method			
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 gain (loss), including realised and unrealised arising from significant foreign exchange variation on the monetary items held by the Company for the years ended December 31, 2018 and 2017, amounted to $14,331 and ($441,270), 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%	$ 71,985	$ -
Investments accounted for using the equity method			
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%	$ 96,239	$ -
Investments accounted for using the equity method			
USD:NTD	1%	-	302,716
Financial liabilities			
Monetary items			
USD:NTD	1%	(39,032)	-

Price risk

i. The Company'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 Company'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 ($1,128) and $0, 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 Company has no material interest rate risk.

(b) Credit risk

Effective 2018

i. Credit risk refers to the risk of financial loss to the Company 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 Company manages their credit risk taking into consideration the entire Company's concern. According to the Company's credit policy, each local entity in the Company 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 Company adopts the assumption under IFRS 9, that is, the default occurs when the contract payments are past due over 90 days.

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

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

viii. The Company 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	Up to 30 days past due	180 days past due	Total
At December 31, 2018				
Expected loss rate	1%	1%	100%	
Total book value	$ 5,386,539	$ 8,743	$ 36	$ 5,395,318
Loss allowance	$ 53,866	$ 87	$ 36	$ 53,989

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ix. Movements in relation to the Company 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	(5,803)
At December 31	$ 53,989

Because of macroeconomics and credit enhancement, the impairment loss for 2018 decreased by $5,803.

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	$ 61,401	$ -	$ -	$ 61,401

Group 1: Financial institutions with 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 Company and aggregated by Company treasury. Company treasury monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities.

ii. Company 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 Company'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)	4,021,555	-	-
Other payables (including related parties)	1,980,943	-	-
Guarantee deposits received	-	-	4,739

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)	4,065,806	-	-
Other payables (including related parties)	1,647,762	-	-
Guarantee deposits received	-	-	5,043

iv. The Company 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 Company'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 Company's investment is included in Level 2.

Level 3: Unobservable inputs for the asset or liability.

B. 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	$ 29,061	$ -	$ -	$ 29,061
Financial assets at fair value other comprehensive income				
Equity securities	-	-	936	936
Total	$ 29,061	$ -	$ 936	$ 29,997

December 31, 2017	Level 1	Level 2	Level 3	Total
Assets				
Recurring fair value measurement				
Available-for-sale financial assets-equity securities	40,344	-	-	40,344

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

i. The instruments the Company 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 parent company only 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 Company's financial and non-financial instruments. Therefore, the estimated value derived using valuation model is adjusted accordingly with additional inputs.

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

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

	2018
	Non-derivative equity instrument
At January 1	$ 6,575
Modified retrospective adjustment	(5,501)
Losses recognised in other comprehensive income	(138)
At December 31	$ 936

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

F. 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.

G. 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:					
Private equity fund investment	$ 936	Net asset value	Not applicable	-	Not applicable

(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) 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'.

(b) Loans and receivables

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.

(c) Impairment of financial assets

i. The Company 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 Company 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 Company, 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 Company 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:

	Note	Measured at fair value through profit or loss	Available-for-sale-equity Measured at fair value through other comprehensive income-equity	Measured at cost	Total	Effects Retained earnings	Others equity
IAS 39		$ -	$ 40,344	$ 6,575	$ 46,919	$ -	$ -
Transferred into and measured at fair value through profit or loss	(b)	40,344	(40,344)	-	-	-	-
Transferred into and measured at fair value through other comprehensive income-equity	(a)	-	42,149	(42,149)	-	-	-
Fair value adjustment	(a)(b)	-	(5,501)	-	(5,501)	(36,181)	30,680
Impairment loss adjustment	(a)	-	(35,574)	35,574	-	35,574	(35,574)
IFRS 9		$ 40,344	$ 1,074	$ -	$ 41,418	($ 607)	($ 4,894)

(a) Under IAS 39, because the equity instruments, which was classified as financial assets at cost, amounting to $6,575, was not held for the purpose of trading, they were reclassified as "financial assets at fair value through other comprehensive income (equity instruments)" amounting to $1,074. Accordingly, retained earnings and other equity interest increased in the amounts of $35,574 and $41,075 on initial application of IFRS 9, respectively.

(b) Under IAS 39, the equity instruments, which were classified as available-for-sale financial assets, amounting to $40,344, was reclassified as "financial assets at fair value through profit or loss (equity instruments)" amounting to $40,344. Accordingly, retained earnings decreased and other equity interest increased in the amounts of $36,181 and $36,181 under IFRS 9, respectively.

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

(a) Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Company’s credit policy, each local entity in the Company 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 Company's Credit Quality Control Policy:

	December 31, 2017
Group 1	$ 889,467
Group 2	5,026,121
	$ 5,915,588

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
31 to 90 days	-
91 to 180 days	-
	$ 278

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

i. As of December 31, 2017, the Company'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 Company 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 Company's activities. Revenue arising from the sales of goods is recognised when the Company 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 Company 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	$	29,953,398
Design revenue		40,954
Royalty and technical services revenue		49,188
	$	30,043,540

C. The effects and description of current balance sheet items if the Company 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)	$ -	($ 2,581,910)	($ 2,581,910)
Contract liabilities	(b)	(110,764)	-	110,764
Other current liabilities	(a)	(2,581,910)	-	2,581,910
Advance sales receipts	(b)	-	(110,764)	(110,764)

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

None.

REALTEK SEMICONDUCTOR CORPORATION

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
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

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			
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

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	Party being endorsed/guaranteed: 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

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

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

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

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

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

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

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:

				Transaction			
Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	General ledger account	Amount	Transaction terms	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

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

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

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

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 Semicomduductor (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	-	-	-	-	