Nuvoton Technology Corporation

Financial Statements for the
Years Ended December 31, 2018 and 2017 and
Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Nuvoton Technology Corporation

Opinion

We have audited the accompanying financial statements of Nuvoton Technology Corporation (the Company), which comprise the balance sheets as of December 31, 2018 and 2017, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2018. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<u>Validity of Sales Revenues</u>

There is significant risk of revenue recognition. In addition, customers' line of credits are highly correlated to delivery of products and recognition of sales revenue. We therefore considered that the validity of sales revenue from the twenty largest customers with changes in credit lines and temporary increase in credit lines in 2018 is a key audit matter for 2018. Refer to Note 4 to the financial statements for the Company's revenue recognition policies.

Our audit procedures in response to the validity of sales revenue included understanding the design and the implementation of internal control of sales revenue and selecting samples of revenue items to ensure the occurrence of transactions.

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

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

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

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

Auditors’ Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the year ended December 31, 2018 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Deloitte & Touche
Taipei, Taiwan
Republic of China

February 1, 2019

Notice to Readers

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

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

NUVOTON TECHNOLOGY CORPORATION

BALANCE SHEETS
DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018		2017	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	$ 960,293	16	$ 607,505	10
Financial assets at fair value through profit or loss, current (Notes 4 and 7)	763	-	1,710	-
Notes and accounts receivable, net (Notes 4 and 8)	602,000	10	542,941	9
Accounts receivable due from related parties, net (Notes 4, 8 and 25)	332,028	5	228,732	4
Other receivables (Notes 6 and 25)	28,016	-	346,972	6
Inventories (Notes 4 and 9)	1,557,510	26	1,625,931	27
Other current assets (Note 22)	162,333	3	215,110	3
Total current assets	3,642,943	60	3,568,901	59
NON-CURRENT ASSETS				
Financial assets at fair value through other comprehensive income, non-current (Notes 4 and 10)	493,166	8	-	-
Available-for-sale financial assets, non-current (Notes 4 and 11)	-	-	183,199	3
Financial assets measured at cost, non-current (Notes 4 and 12)	-	-	301,493	5
Investments accounted for using equity method (Notes 4 and 13)	1,009,874	17	1,137,627	19
Property, plant and equipment (Notes 4 and 14)	612,248	10	569,765	9
Intangible assets (Notes 4 and 15)	122,967	2	163,499	3
Deferred income tax assets (Notes 4 and 19)	80,000	1	67,000	1
Refundable deposits paid (Note 6)	75,707	1	65,737	1
Other non-current assets (Note 22)	35,129	1	37,510	-
Total non-current assets	2,429,091	40	2,525,830	41
TOTAL	$ 6,072,034	100	$ 6,094,731	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Accounts payable	$ 888,249	15	$ 934,066	16
Other payables (Notes 16 and 25)	917,252	15	923,354	15
Current tax liabilities (Notes 4 and 19)	83,748	1	73,283	1
Other current liabilities	52,093	1	77,446	1
Total current liabilities	1,941,342	32	2,008,149	33
NON-CURRENT LIABILITIES				
Products guarantee based on commitment (Note 4)	101,891	1	101,891	2
Accrued pension liabilities (Notes 4 and 17)	292,862	5	302,086	5
Other non-current liabilities	1,573	-	19,644	-
Total non-current liabilities	396,326	6	423,621	7
Total liabilities	2,337,668	38	2,431,770	40
EQUITY				
Share capital (Note 18)	2,075,544	34	2,075,544	34
Capital surplus				
Additional paid-in capital	63,485	1	63,485	1
Employee share options	13	-	13	-
Retained earnings				
Legal reserve	470,659	8	401,846	6
Unappropriated earnings	955,346	16	896,014	15
Exchange differences on translation of foreign operations (Notes 4 and 18)	(10,535)	-	(165)	-
Unrealized gains (losses) on financial assets at fair value through other comprehensive income (Notes 4 and 18)	179,854	3	-	-
Unrealized gains (losses) on available-for-sale financial assets (Notes 4 and 18)	-	-	226,224	4
Total equity	3,734,366	62	3,662,961	60
TOTAL	$ 6,072,034	100	$ 6,094,731	100

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

NUVOTON TECHNOLOGY CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUE	$ 9,798,594	100	$ 9,000,394	100
OPERATING COST	6,116,544	63	5,490,445	61
GROSS PROFIT	3,682,050	37	3,509,949	39
OPERATING EXPENSES				
Selling expenses	148,532	1	136,536	1
General and administrative expenses	370,922	4	381,513	4
Research and development expenses	2,457,238	25	2,323,442	26
Total operating expenses	2,976,692	30	2,841,491	31
PROFIT FROM OPERATIONS	705,358	7	668,458	8
NON-OPERATING INCOME AND LOSSES				
Share of profit of subsidiaries accounted for using equity method	17,004	-	27,940	-
Interest income	6,624	-	6,057	-
Dividend income	67,547	1	60,266	1
Other gains and losses	470	-	83	-
Gains (losses) on disposal of property, plant and equipment	1,163	-	905	-
Foreign exchange gains (losses)	13,882	-	(3,952)	-
Gains (losses) on financial instruments at fair value through profit or loss	(30,411)	-	5,331	-
Total non-operating income and losses	76,279	1	96,630	1
PROFIT BEFORE INCOME TAX	781,637	8	765,088	9
INCOME TAX EXPENSE (Notes 4 and 19)	(71,004)	(1)	(76,955)	(1)
NET PROFIT	710,633	7	688,133	8

(Continued)

NUVOTON TECHNOLOGY CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017	
	Amount	**%**	**Amount**	**%**
OTHER COMPREHENSIVE INCOME (LOSSES)				
Items that will not be reclassified subsequently to profit or loss				
Remeasurement of defined benefit plans (Notes 4 and 17)	$ (69,908)	(1)	$ (21,978)	-
Unrealized gains (losses) on investment in equity instruments at fair value through other comprehensive income	(135,687)	(1)	-	-
Share of other comprehensive income(loss) of subsidiaries accounted for using equity method	(57,888)	(1)	3,032	-
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translation of foreign operations	(10,370)	-	(29,445)	-
Unrealized gains (losses) on available-for-sale financial assets	-	-	90,323	1
Share of comprehensive income of subsidiaries accounted for using equity method	-	-	52,553	-
Other comprehensive income (loss)	(273,853)	(3)	94,485	1
TOTAL COMPREHENSIVE INCOME	$ 436,780	4	$ 782,618	9
EARNINGS PER SHARE (Notes 4 and 21)				
From continuing operations				
Basic	$ 3.42		$ 3.32	
Diluted	$ 3.40		$ 3.30	

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

NUVOTON TECHNOLOGY CORPORATION

STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

		Capital Surplus		Retained Earnings		Other Equity			
	Share Capital	Additional Paid-in Capital	Employee Share Options	Legal Reserve	Unappropriated Earnings	Exchange Differences on Translation of Foreign Operations	Unrealized Gain (Losses) on Financial Assets at Fair Value Through Other Comprehensive Income	Unrealized Gain (Losses) on Available-for-sale Financial Assets	Total Equity
BALANCE, JANUARY 1, 2017	$ 2,075,544	$ 63,485	$ 13	$ 340,530	$ 786,274	$ 29,280	$ -	$ 83,348	$ 3,378,474
Net profit in 2017	-	-	-	-	688,133	-	-	-	688,133
Other comprehensive income (loss) in 2017	-	-	-	-	(18,946)	(29,445)	-	142,876	94,485
Total comprehensive income (loss) in 2017	-	-	-	-	669,187	(29,445)	-	142,876	782,618
Appropriation of 2016 earnings (Note 18)									
Legal reserve	-	-	-	61,316	(61,316)	-	-	-	-
Cash dividends	-	-	-	-	(498,131)	-	-	-	(498,131)
BALANCE, DECEMBER 31, 2017	2,075,544	63,485	13	401,846	896,014	(165)	-	226,224	3,662,961
Adjustment on initial application of IFRS 9 (Note 3)	-	-	-	-	493	-	379,242	(226,224)	153,511
BALANCE, JANUARY 1, 2018 AFTER ADJUSTMENTS	2,075,544	63,485	13	401,846	896,507	(165)	379,242	-	3,816,472
Net profit in 2018	-	-	-	-	710,633	-	-	-	710,633
Other comprehensive income (loss) in 2018	-	-	-	-	(67,323)	(10,370)	(196,160)	-	(273,853)
Total comprehensive income (loss) in 2018	-	-	-	-	643,310	(10,370)	(196,160)	-	436,780
Appropriation of 2017 earnings (Note 18)									
Legal reserve	-	-	-	68,813	(68,813)	-	-	-	-
Cash dividends	-	-	-	-	(518,886)	-	-	-	(518,886)
Disposals of investments in equity instruments at fair value through other comprehensive income (Notes 10 and 18)	-	-	-	-	3,228	-	(3,228)	-	-
BALANCE, DECEMBER 31, 2018	$ 2,075,544	$ 63,485	$ 13	$ 470,659	$ 955,346	$ (10,535)	$ 179,854	$ -	$ 3,734,366

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

NUVOTON TECHNOLOGY CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	$ 781,637	$ 765,088
Adjustments for:		
Depreciation expense	140,681	132,392
Amortization expense	68,518	72,988
Expected credit loss recognized (reversed) on accounts receivables	1,403	-
(Reversal of) provision for allowance for doubtful accounts	-	1,609
Interest income	(6,624)	(6,057)
Dividend income	(67,547)	(60,266)
Share of profit of subsidiaries accounted for using equity method	(17,004)	(27,940)
Unrealized gain or loss	673	(310)
Net (gain) loss on fair value change of financial assets and liabilities designated as at fair value through profit or loss	947	(2,417)
(Gain) loss on disposal of property, plant and equipment	(1,163)	(905)
Changes in operating assets and liabilities		
(Increase) decrease in notes and accounts receivable	(60,462)	(72,104)
(Increase) decrease in accounts receivable due from related parties	(103,296)	(87,969)
(Increase) decrease in other receivables	318,924	(320,893)
(Increase) decrease in inventories	68,421	(456,962)
(Increase) decrease in other current assets	52,777	(5,253)
(Increase) decrease in other non-current assets	2,381	2,382
Increase (decrease) in accounts payable	(45,817)	29,580
Increase (decrease) in other payables	(49,635)	(3,761)
Increase (decrease) in other current liabilities	(25,353)	(19,454)
Increase (decrease) on accrued pension liabilities	(79,132)	(69,709)
Increase (decrease) in other non-current liabilities	(7,520)	7,243
Cash generated from (used in) operations	972,809	(122,718)
Income tax paid	(73,539)	(14,781)
Interest received	6,656	6,534
Dividends received	67,547	60,266
Net cash generated from (used in) operating activities	973,473	(70,699)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of intangible assets	(23,750)	(22,025)
Proceeds from disposal of financial assets at fair value through other comprehensive income	5,850	-
Proceeds from capital reduction of financial assets at fair value through other comprehensive income	3,500	-
Proceeds from capital reduction of financial assets measured at cost	-	4,000
Acquisition of investment accounted for using equity method	-	(2,072)

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NUVOTON TECHNOLOGY CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018	2017
Proceeds from capital reduction of investments accounted for using equity method	$ 75,826	$ -
Acquisition of property, plant and equipment	(154,894)	(263,518)
Proceeds from disposal of property, plant and equipment	1,639	915
(Increase) decrease in refundable deposits paid	(9,970)	(856)
Net cash generated from (used in) investing activities	(101,799)	(283,556)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends	(518,886)	(498,131)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	352,788	(852,386)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	607,505	1,459,891
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 960,293	$ 607,505

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

1. GENERAL INFORMATION

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

For the specialization and division of labor and the reinforcement of core competitive ability, the Company's parent company, Winbond Electronics Corporation ("WEC"), spun off its Logic IC business into the Company on July 1, 2008 in accordance with the Business Mergers and Acquisitions Act and the Company commenced business in July 2008. WEC held approximately 61% of the ownership interest in the Company as of December 31, 2018 and 2017.

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

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors and authorized for issue on February 1, 2019.

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

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

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

   1) IFRS 9 "Financial Instruments" and related amendment

      IFRS 9 supersedes IAS 39 "Financial Instruments: Recognition and Measurement", with consequential amendments to IFRS 7 "Financial Instruments: Disclosures" and other standards. IFRS 9 sets out the requirements for classification, measurement and impairment of financial assets and hedge accounting. Refer to Note 4 for information relating to the relevant accounting policies.

      The requirements for classification, measurement and impairment of financial assets have been applied retrospectively from January 1, 2018, and the requirements for hedge accounting have been applied prospectively. IFRS 9 is not applicable to items that have already been derecognized at December 31, 2017.

Classification, measurement and impairment of financial assets

On the basis of the facts and circumstances that existed as at January 1, 2018, the Company has performed an assessment of the classification of recognized financial assets and has elected not to restate prior reporting periods.

The following table shows the original measurement categories and carrying amount under IAS 39 and the new measurement categories and carrying amount under IFRS 9 for each class of the Company's financial assets and financial liabilities as at January 1, 2018.

	Measured items		Carrying amount	
Financial assets	**IAS 39**	**IFRS 9**	**IAS 39**	**IFRS 9**
Cash and cash equivalents	Loans and receivables	Amortized cost	$ 607,505	$ 607,505
Equity securities	Available-for-sale financial assets	Fair value through other comprehensive income (i.e. FVTOCI) - equity instrument	484,692	638,203
Notes receivable, accounts receivable and other receivables	Loans and receivables	Amortized cost	1,092,320	1,092,320
Refundable deposits paid	Loans and receivables	Amortized cost	65,737	65,737

	IAS 39 Carrying Amount as of January 1, 2018	**Reclassifi-cations**	**Remeasure-ments**	**IFRS 9 Carrying Amount as of January 1, 2018**	**Retained Earnings Effect on January 1, 2018**	**Other Equity Effect on January 1, 2018**
FVTOCI						
- Equity instruments	$ -	$ 484,692	$ 153,511	$ 638,203	$ 493	$ 153,018
Add: From available-for-sale financial assets (IAS 39)	484,692	(484,692)	-	-	-	-
Total	$ 484,692	$ -	$ 153,511	$ 638,203	$ 493	$ 153,018

a) The Company elected to designate all its investments in equity securities previously classified as available-for-sale under IAS 39 as at FVTOCI under IFRS 9, because these investments are not held for trading. As a result, the related other equity - unrealized gain on available-for-sale financial assets of $226,224 thousand was reclassified to other equity - unrealized gain on financial assets at FVTOCI.

   Investments in unlisted shares previously measured at cost under IAS 39 have been designated as at FVTOCI under IFRS 9 and were remeasured at fair value. Consequently, an increase of $153,018 thousand was recognized in both financial assets at FVTOCI and other equity - unrealized gain on financial assets at FVTOCI on January 1, 2018.

   The Company recognized under IAS 39 impairment loss on certain investments in equity securities previously classified as measured at cost and the loss was accumulated in retained earnings. Since those investments were designated as at FVTOCI under IFRS 9 and no impairment assessment is required, an adjustment was made that resulted in a decrease of $493 thousand in other equity - unrealized gain on financial assets at FVTOCI and an increase of $493 thousand in retained earnings on January 1, 2018.

b) Notes receivable, accounts receivable, other receivables and refundable deposits paid that were previously classified as loans and receivables under IAS 39 were classified as measured at amortized cost with an assessment of expected credit losses under IFRS 9.

2) IFRS 15 "Revenue from Contracts with Customers" and related amendment

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations. Refer to Note 4 for related accounting policies.

3) IFRIC 22 "Foreign Currency Transactions and Advance Consideration"

IAS 21 stipulated that a foreign currency transaction shall be recorded on initial recognition in the functional currency by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. IFRIC 22 further explains that the date of the transaction is the date on which an entity recognizes a non-monetary asset or non-monetary liability from payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine the date of the transaction for each payment or receipt of advance consideration.

The Company applied IFRIC 22 prospectively to all assets, expenses and income recognized on or after January 1, 2018 within the scope of the Interpretation.

b. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed by the FSC for application starting from 2019

New, Amended or Revised Standards and Interpretations (the "New IFRSs")	**Effective Date Announced by IASB (Note 1)**
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019 (Note 2)
IFRS 16 "Leases"	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019 (Note 3)
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

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The FSC permits the election for early adoption of the amendments starting from 2018.

Note 3: The Company shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

1) IFRS 16 "Leases"

IFRS 16 sets out the accounting standards for leases agreements of lessor and lessee that will supersede IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", and a number of related interpretations.

Definition of a lease

Upon initial application of IFRS 16, the Company will elect to apply IFRS 16 only to contracts entered into (or changed) on or after January 1, 2019 in order to determine whether those contracts are, or contain, a lease. Contracts identified as containing a lease under IAS 17 and IFRIC 4 will not be reassessed and will be accounted for in accordance with the transitional provisions under IFRS 16.

The Company as lessee

Upon initial application of IFRS 16, except for payments for low-value assets and short-term leases which will be recognized as expenses on a straight-line basis, the Company will recognize right-of-use assets and lease liabilities for all leases on the balance sheets. On the statements of comprehensive income, the Company will present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities and computed using the effective interest method. On the statements of cash flows, cash payments for the principal portion of lease liabilities will be classified within financing activities; cash payments for the interest portion will be classified within operating activities. Currently, payments under operating lease contracts are recognized as expenses on a straight-line basis. Cash flows for operating leases are classified within operating activities on the statements of cash flows. Leased assets and finance lease payables are recognized for contracts classified as finance leases.

The Company will apply IFRS 16 retrospectively with the cumulative effect of the initial application recognized on January 1, 2019 but will not restate comparative information.

The Company as lessor

Except for sublease transactions, the Company will not make any adjustments for leases in which it is a lessor and will account for leases under IFRS 16 starting from January 1, 2019.

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

Anticipated impact on assets, liabilities and equity as of January 1, 2019

	Carrying Amount as of December 31, 2018	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2019
Prepayments for leases - current	$ 3,463	$ (3,463)	$ -
Prepayments for leases - non-current	35,129	(35,129)	-
Right-of-use assets	-	326,794	326,794
Total effect on assets	$ 38,592	$ 288,202	$ 326,794
Lease liabilities - current	$ -	$ 43,487	$ 43,487
Lease liabilities - non-current	-	244,715	244,715
Total effect on liabilities	$ -	$ 288,202	$ 288,202
Retained earnings	$ 1,426,005	$ -	$ 1,426,005

2) IFRIC 23 “Uncertainty over Income Tax Treatments”

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

Upon initial application of IFRIC 23, the Company will recognize the cumulative effect of retrospective application in retained earnings on January 1, 2019.

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

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020 (Note 2)
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020 (Note 3)

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The Company shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

Basis of Preparation

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

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

Classification of Current and Non-current Assets and Liabilities

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

Foreign Currencies

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

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

Exchange differences arising on the retranslation of non-monetary items measured at fair value are included in profit or loss for the period at the rates prevailing at the end of reporting period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

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

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

Cash Equivalents

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

Financial Instruments

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

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

a. Measurement category

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

2018

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

1) Financial asset at FVTPL

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

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

2) Financial assets at amortized cost

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

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

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

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

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

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

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

3) Investments in equity instruments at FVTOCI

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

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

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

<u>2017</u>

The categories of financial assets held by the Company are financial assets at FVTPL, available-for-sale financial assets, and loans and receivables.

1) Financial assets at fair value through profit or loss

   Financial assets are classified as at FVTPL when the financial assets are either held for trading or designated as at fair value through profit or loss. Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

2) Available-for-sale financial assets

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

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

   Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment loss at the end of each reporting period and are presented in a separate line item as financial assets carried at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between carrying amount and fair value is recognized in profit or loss or other comprehensive income on financial assets. Any impairment losses are recognized in profit and loss.

3) Loans and receivables

   Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables including cash and cash equivalent, notes and accounts receivable, account receivable due from related parties, other receivables and refundable deposits paid are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivable when the effect of discounting is immaterial.

b. Impairment of financial assets

2018

At the end of each reporting period, the Company recognizes a loss allowance for expected credit losses ("ECL") for financial assets at amortized cost (including accounts receivable).
The loss allowance for accounts receivable is measured at an amount equal to lifetime expected credit losses. For other financial assets when the credit risk on the financial instrument has not increased significantly since initial recognition, a loss allowance is recognized at an amount equal to 12-month ECL. If, on the other hand, there has been a significant increase in credit risk since initial recognition, a loss allowance is recognized at an amount equal to lifetime ECL.

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

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

2017

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

The objective evidence of impairment for trade receivables could include the Company's past experience of collecting payments, the delayed payments in past period, the information which correlates with default on receivables, as well as the estimation of future cash flows. The amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

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

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

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable where the carrying amount is reduced through the use of an allowance account. When accounts receivable are considered uncollectable, the amount is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

c. Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the financial asset to another entity. Before 2018, on derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss which had been recognized in other comprehensive income is recognized in profit or loss. Starting from 2018, on derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. However, on derecognition of an investment in an equity instrument at FVTOCI, the cumulative gain or loss that had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

d. Financial liabilities

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

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

e. Dercognition of financial liabilities

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

f. Derivative financial instruments

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

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

Inventories

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

Investments Accounted for Using Equity Method

Investment in subsidiaries

Subsidiaries are the entities controlled by the Company. Under the equity method, the investment is initially recognized at cost and the carrying amount is increased or decreased to recognize the Company's share of the profit or loss and other comprehensive income of the subsidiary after the date of acquisition. Besides, the Company also recognizes the Company's share of the change in other equity of the subsidiary.

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

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

Profits and losses from downstream transactions with a subsidiary are eliminated in full. Profits and losses from upstream transactions with a subsidiary are recognized in the Company's financial statements only to the extent of interests in the subsidiary that are not related to the Company.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less recognized accumulated depreciation and accumulated impairment loss.

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

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

Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Intangible Assets

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

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

Impairment of Tangible and Intangible Assets

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

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit or assets related to contract cost is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

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

Products Guarantee Based on Commitment

The Company would estimate guarantee provision by the appropriate ratio when the related product sold.

Revenue Recognition

<u>2018</u>

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

<u>2017</u>

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Allowances for sales returns are recognized at the time of sale based on the seller’s reliable estimate of future returns; liabilities for returns are recognized based on previous experience and other relevant factors. Sale of goods is recognized when the goods are delivered and the ownership of good is transferred to the buyer.

Leasing

The lease terms of the Company does not transfer substantially all the risks and rewards of ownership to the lessee. All the leases are classified as operating lease. Rental income from operating lease is recognized on a straight-line basis over the term of the relevant lease. As lessee, operating lease payments are recognized as an expense on a straight-line basis over the lease period. Under operating lease, contingent rents payable arising are recognized as an expense in the period in which they are incurred.

Employee Benefits

a. Short-term employee benefits

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

b. Retirement benefits

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

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

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

Taxation

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

a. Current tax

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

b. Deferred tax

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

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

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Valuation of Inventory

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

6. CASH AND CASH EQUIVALENTS

	December 31	
	2018	**2017**
Cash and cash in bank	$ 836,993	$ 563,155
Repurchase agreements collateralized by bonds	123,300	44,350
	$ 960,293	$ 607,505

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

	December 31	
	2018	**2017**
Time deposits	$ 72,074	$ 62,213

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

	December 31	
	2018	**2017**
Time deposits	$ -	$ 318,600

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2018	**2017**
Financial assets at FVTPL - current		
Foreign exchange forward contracts	$ 763	$ 1,710

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

	Currencies	**Maturity Date**	**Contract Amount (In Thousands)**
December 31, 2018			
Sell forward exchange contracts	USD/NTD	2019.01.04-2019.02.21	USD17,000/NTD521,731
December 31, 2017			
Sell forward exchange contracts	USD/NTD	2018.01.05-2018.01.25	USD11,000/NTD329,070

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

8. NOTES AND ACCOUNTS RECEIVABLE

	December 31	
	2018	**2017**
Notes receivable	$ -	$ -
Accounts receivable		
At amortized cost		
Gross carrying amount	947,716	783,958
Less: Allowance for impairment loss	(13,688)	(12,285)
	$ 934,028	$ 771,673

2018

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

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

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

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

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

December 31, 2018

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

The movements of the loss allowance of accounts receivable were as follows:

	2018
Balance at January 1 (IAS 39)	$ 12,285
Adjustment on initial application of IFRS 9	-
Balance at January 1 (IFRS 9)	12,285
Net remeasurement of expected credit loss allowance	1,403
Balance at December 31	$ 13,688

2017

The Company applied the same credit policy in 2018 and 2017. The average credit period for sales of goods was 30-60 days. Allowance for doubtful accounts is based on estimated uncollectable amounts determined by reference to the aging of receivables, past dealing experience with the counterparties and an analysis of their respective financial positions.

The aging of accounts receivable was as follows:

	December 31, 2017
Not overdue	$ 528,110
Overdue under 30 days	27,116
Overdue 31-90 days	-
Overdue 91 days and longer	-
	$ 555,226

The movements of the allowance for doubtful accounts were as follows:

	For the Year Ended December 31, 2017
Balance at January 1	$ 10,676
Provision (reversed)	1,609
Balance at December 31	$ 12,285

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

9. INVENTORIES

	December 31	
	2018	2017
Raw materials and supplies	$ 123,949	$ 86,115
Work-in-process	1,061,800	1,124,060
Finished goods	339,286	334,234
Inventories in transit	32,475	81,522
	$ 1,557,510	$ 1,625,931

a. As of December 31, 2018 and 2017, the allowance for inventory devaluation was $327,476 thousand and $294,728 thousand, respectively.

b. The operating cost for the years ended December 31, 2018 and 2017 was $6,116,544 thousand and $5,490,445 thousand, respectively. The operating cost included inventory write-downs and obsolescence and abandonment losses of inventories in the amounts of $45,385 thousand and $32,066 thousand for the years ended December 31, 2018 and 2017, respectively.

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - 2018

Equity instruments at FVTOCI:

	December 31, 2018
Domestic listed and emerging stocks	
Nyquest Technology Co., Ltd.	$ 74,092
Brightek Optoelectronic Co., Ltd.	341
Non-listed stocks	
United Industrial Gases Co., Ltd.	396,000
Yu-Ji Venture Capital Co., Ltd.	22,733
	$ 493,166

These investments in equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Company's strategy of holding these investments for long-term purposes. These investments in equity instruments were classified as available-for-sale and financial assets measured at cost under IAS 39. Refer to Note 3, Note 11 and Note 12 for information relating to their reclassification and comparative information for 2017.

In 2018, the Company sold part of its shares of Nyquest Technology Co., Ltd. on the fair value amounted to $5,850 thousand in order to manage its investment concentration risk. and it transferred $3,228 thousand from other equity to retained earnings, refer to Note 18 for related information.

The Company recognized dividend income of $67,547 thousand for the year ended December 31, 2018. To elaborate, the amount related to investment derecognition for the year ended December 31, 2018 was $648 thousand. The amount related to investments held at the end of the year was $66,899 thousand for the year ended December 31, 2018 .

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS - 2017

	December 31, 2017
Domestic listed investment	
Nyquest Technology Co., Ltd. (Note 10)	$ 183,199

12. FINANCIAL ASSETS MEASURED AT COST - 2017

	December 31, 2017
Non-listed investment (Note 10)	
United Industrial Gases Co., Ltd.	$ 280,000
Brightek Optoelectronic Co., Ltd.	493
Yu-Ji Venture Capital Co., Ltd.	21,000
	$ 301,493

Management believed that the above non-listed investments held by the Company have fair value that cannot be reliably measured because the range of reasonable fair value estimates was so significant and various estimates cannot be reasonably estimated; therefore, they were measured at cost less impairment at the end of reporting period.

13. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31	
	2018	2017
Investments in subsidiaries	$ 1,009,874	$ 1,137,627

	December 31			
	2018		2017	
	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Non-listed companies				
Marketplace Management Ltd. ("MML")	$ 78,279	100	$ 78,963	100
Pigeon Creek Holding Co., Ltd. ("PCH")	178,644	100	167,031	100
Nuvoton Investment Holding Ltd. ("NIH")	217,761	100	317,953	100
Nuvoton Electronics Technology (H.K.) Limited ("NTHK")	452,809	100	434,414	100
Song Yong Investment Corporation ("SYI")	60,600	100	115,322	100
Nuvoton Technology India Private Ltd. ("NTIPL")	21,781	100	23,944	100
	$ 1,009,874		$ 1,137,627	

In 2017, the Company increased the additional capital of MML and PCH in the amount of $1,150 thousand and $922 thousand, respectively.

In 2018, the Company received capital reduction of $75,826 thousand from NIH.

14. PROPERTY, PLANT AND EQUIPMENT

	December 31	
	2018	2017
Land and buildings	$ 198,813	$ 182,637
Machinery and equipment	368,727	329,204
Other equipment	44,708	57,127
Construction in progress and prepayments for purchase of equipment	-	797
	$ 612,248	$ 569,765

	Land and Buildings	Machinery and Equipment	Other Equipment	Construction in Progress and Prepayments for Purchase of Equipment	Total
Cost					
Balance at January 1, 2018	$ 3,608,264	$ 11,356,715	$ 192,634	$ 797	$ 15,158,410
Additions	41,375	138,827	3,438	-	183,640
Disposals	-	(179,432)	(8,784)	-	(188,216)
Reclassified	23	797	(23)	(797)	-
Balance at December 31, 2018	3,649,662	11,316,907	187,265	-	15,153,834
Accumulated depreciation and impairment					
Balance at January 1, 2018	3,425,627	11,027,511	135,507	-	14,588,645
Disposals	-	(178,956)	(8,784)	-	(187,740)
Depreciation expenses	25,199	99,625	15,857	-	140,681
Reclassified	23	-	(23)	-	-
Balance at December 31, 2018	3,450,849	10,948,180	142,557	-	14,541,586
Carrying amount at December 31, 2018	$ 198,813	$ 368,727	$ 44,708	$ -	$ 612,248
Cost					
Balance at January 1, 2017	$ 3,471,902	$ 11,462,145	$ 168,785	$ 35,733	$ 15,138,565
Additions	101,379	100,457	24,582	797	227,215
Disposals	(750)	(205,887)	(733)	-	(207,370)
Reclassified	35,733	-	-	(35,733)	-
Balance at December 31, 2017	3,608,264	11,356,715	192,634	797	15,158,410
Accumulated depreciation and impairment					
Balance at January 1, 2017	3,404,613	11,137,798	121,202	-	14,663,613
Disposals	(750)	(205,881)	(729)	-	(207,360)
Depreciation expenses	21,764	95,594	15,034	-	132,392
Reclassified	-	-	-	-	-
Balance at December 31, 2017	3,425,627	11,027,511	135,507	-	14,588,645
Carrying amount at December 31, 2017	$ 182,637	$ 329,204	$ 57,127	$ 797	$ 569,765

(Concluded)

15. INTANGIBLE ASSETS

	December 31	
	2018	2017
Deferred technical assets	$ 122,967	$ 163,499

	Deferred Technical Assets
Cost	
Balance at January 1, 2018	$ 876,878
Addition	27,986
Balance at December 31, 2018	904,864
Accumulated amortization and impairment	
Balance at January 1, 2018	713,379
Amortization expenses	68,518
Balance at December 31, 2018	781,897
Carrying amount at December 31, 2018	$ 122,967
Cost	
Balance at January 1, 2017	$ 866,355
Addition	10,523
Balance at December 31, 2017	876,878
Accumulated amortization and impairment	
Balance at January 1, 2017	640,391
Amortization expenses	72,988
Balance at December 31, 2017	713,379
Carrying amount at December 31, 2017	$ 163,499

16. OTHER PAYABLES

	December 31	
	2018	2017
Payable for salaries or employee benefits	$ 365,098	$ 380,779
Payable for subsidiaries service fees (Note 25)	102,323	120,435
Payable for royalties	99,273	85,909
Payable for purchase of equipment	68,022	39,276
Payable for software	55,363	19,634
Others	227,173	277,321
	$ 917,252	$ 923,354

17. RETIREMENT BENEFIT PLANS

a. Defined contribution plan

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

b. Defined benefit plan

The defined benefit plan adopted by the Company in accordance with the Labor Standards Law is operated by the government of the ROC. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the 6 months before retirement. In 2018 and 2017, the Company contributed amounts equal to 15%, of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Company has no right to influence the investment policy and strategy.

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

	December 31	
	2018	**2017**
Present value of defined benefit obligation	$ 923,106	$ 872,507
Fair value of plan assets	(630,244)	(570,421)
Net defined benefit liability	$ 292,862	$ 302,086

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

	Present Value of the Defined Benefit Obligation	**Fair Value of the Plan Assets**	**Net Defined Benefit Liability (Asset)**
Balance at January 1, 2017	$ 884,494	$ (534,677)	$ 349,817
Service cost			
Current service cost	10,022	-	10,022
Net interest expense (income)	15,100	(9,766)	5,334
Recognized in profit or loss	25,122	(9,766)	15,356
Remeasurement			
Actuarial (gain) loss - the discount rate more (less) than the realized rate of return	-	4,585	4,585
Actuarial (gain) loss - changes in financial assumptions	20,840	-	20,840
Actuarial (gain) loss - experience adjustments	(3,447)	-	(3,447)
Recognized in other comprehensive income	17,393	4,585	21,978
Contributions from the employer	-	(83,789)	(83,789)
Plan assets paid	(53,226)	53,226	-
Others	(1,276)	-	(1,276)
Balance at December 31, 2017	872,507	(570,421)	302,086

(Continued)

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

The amounts recognized in profit or loss in respect of these defined benefit plans were as follows:

	For the Year Ended December 31	
	2018	2017
Analysis by function		
Operating costs	$ 6,932	$ 7,833
Selling expenses	105	96
General and administrative expenses	1,054	1,558
Research and development expenses	4,363	5,869
	$ 12,454	$ 15,356

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

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

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

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

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

	December 31	
	2018	**2017**
Discount rate(s)	1.25%	1.50%
Expected rate(s) of salary increase	1%-2%	1%-2%

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

	December 31	
	2018	**2017**
Discount rate(s)		
0.25% increase	$ (21,231)	$ (20,840)
0.25% decrease	$ 21,977	$ 21,597
Expected rate(s) of salary increase		
0.25% increase	$ 21,830	$ 21,505
0.25% decrease	$ (21,195)	$ (20,853)

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

	December 31	
	2018	**2017**
The expected contributions to the plan for the next year	$ 86,365	$ 90,000
The average duration of the defined benefit obligation	9.4 years	9.8 years

18. EQUITY

a. Share capital

	December 31	
	2018	**2017**
Authorized shares (in thousands)	300,000	300,000
Authorized capital	$ 3,000,000	$ 3,000,000
Issued and paid shares (in thousands)	207,554	207,554
Issued capital	$ 2,075,544	$ 2,075,544
Par value (in New Taiwan dollars)	$ 10	$ 10

As of December 31, 2018 and 2017, the balance of the Company's capital account amounted to $2,075,544 thousand, divided into 207,554 thousand ordinary shares at a par of NT$10.

b. Capital surplus

	December 31	
	2018	2017
May be used to offset a deficit, distributed as cash dividends, or transferred to capital*		
Additional paid-in capital	$ 63,485	$ 63,485
May not be used for any purpose		
Employee share options	13	13
	$ 63,498	$ 63,498

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

c. Retained earnings and dividend policy

Under the dividends policy as set forth in the Company's Articles of Incorporation (the "Articles"), if the Company has surplus earnings at the end of a fiscal year, after covering all losses incurred in previous years and paying all taxes, the Company shall set aside 10% of said earnings as legal reserve. However, legal reserve need not be made when the accumulated legal reserve equals the paid-in capital of the Company. After setting aside or reversing special reserve pursuant to applicable laws and regulations and orders of competent authorities from (1) the remaining amount plus undistributed retained earnings; or (2) the difference between the undistributed retained earnings and the losses suffered by the Company at the end of a fiscal year if the losses can be fully covered by the undistributed retained earnings, the Company shall distribute the remaining amount (if not otherwise set aside as special reserve and reserved based on business needs) and shall be used by the Company's Board of Directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for bonus to shareholders. In principle, not less than 10% of the total shareholders bonus shall be distributed in form of cash. For the policies on distribution of employees' compensation and remuneration to directors, refer to Note 20 "Employee benefits expense".

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

The appropriations of the Company's earnings for 2017 and 2016 had been approved in the shareholders' meetings on June 12, 2018 and June 14, 2017, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT$)	
	For Year 2017	For Year 2016	For Year 2017	For Year 2016
Legal reserve	$ 68,813	$ 61,316		
Cash dividends	518,886	498,131	$ 2.50	$ 2.40
	$ 587,699	$ 559,447		

The appropriations of the Company's earnings for 2018 had been approved in the Board of Directors' meeting on February 1, 2019. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT$)
Legal reserve	$ 71,063	
Cash dividends	518,886	$ 2.50

The appropriations of earnings for 2018 will be presented for approval in the shareholders' meeting to be held on June 24, 2019.

d. Other equity items

1) The exchange differences arising on translation of foreign operations' net assets from its functional currency to the Company's presentation currency (New Taiwan dollar) are recognized directly in other comprehensive income. As of December 31, 2018 and 2017, other comprehensive loss was $10,370 thousand and $29,445 thousand, respectively.

2) Unrealized gain (loss) on financial assets at FVTOCI

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

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

	Amounts
Balance at January 1, 2018 (IAS 39)	$ 226,224
Adjustment on initial application of IFRS 9	(226,224)
Balance at January 1, 2018 (IFRS 9)	$ -
Balance at January 1, 2017	$ 83,348
Unrealized gains (losses) on revaluation of available-for-sale financial assets	90,323
Share of unrealized gains (losses) on revaluation of available-for-sale financial assets of subsidiaries accounted for using the equity method	52,553
Balance at December 31, 2017	$ 226,224

19. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Income tax recognized in profit or loss

The major components of income tax expense were as follows:

	For the Year Ended December 31	
	2018	2017
Current income tax expense		
In respect of the current year	$ 84,000	$ 80,000
Adjustment for prior years' tax and effects of estimated difference	4	(1,045)
Deferred income tax		
In respect of the current year	(1,000)	(2,000)
Effect of tax rate changes	(12,000)	-
Income tax expense recognized in profit or loss	$ 71,004	$ 76,955

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

	For the Year Ended December 31	
	2018	2017
Income tax expense from continuing operations at the statutory rate	$ 156,000	$ 130,000
Tax effect of adjustment item		
Permanent differences	(27,000)	(20,000)
Tax-exempt income	(14,000)	(10,000)
Others	9,000	-
Additional income tax on unappropriated earnings	8,149	1,967
Current income tax credit	(48,149)	(21,967)
Current income tax	84,000	80,000
Deferred income tax	(13,000)	(2,000)
Adjustment for prior year's tax	4	(1,045)
Tax expense recognized in profit or loss	$ 71,004	$ 76,955

In 2017, the applicable corporate income tax rate used by the Company entities is 17%. However, the Income Tax Act was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%, effective in 2018. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings will be reduced from 10% to 5%.

As the shareholders meeting have not resolved the appropriation of earnings for 2018, the potential income tax consequences of the 2018 unappropriated earnings are not reliably determinable.

c. Current tax liabilities

	December 31	
	2018	2017
Income tax payable	$ 83,748	$ 73,283

d. Deferred income tax assets

	December 31	
	2018	2017
Deferred income tax assets		
Allowance for inventory valuation and obsolescence loss and others	$ 80,000	$ 67,000

e. Information about unused tax-exemption

As of December 31, 2018, profit attributable to the following expansion projects was exempted from income tax for a five-year period:

Expansion of Construction Project	Tax-exemption Period
Advanced integrated circuit design	2014-2018

f. Income tax assessments

The Company's tax returns through 2016 have been assessed by the tax authorities.

g. Information about investment credits

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

20. EMPLOYEE BENEFITS EXPENSE, DEPRECIATION, AND AMORTIZATION

	For the Year Ended December 31					
	2018			2017		
	Classified as Operating Costs	Classified as Operating Expenses	Total	Classified as Operating Costs	Classified as Operating Expenses	Total
Employee benefits expense						
Short-term employment benefits	$ 727,045	$ 1,108,670	$ 1,835,715	$ 725,076	$ 1,061,894	$ 1,786,970
Post-employment benefits	31,212	47,505	78,717	32,121	46,808	78,929
Remuneration to directors	-	10,325	10,325	-	10,147	10,147
Depreciation	97,217	43,464	140,681	95,807	36,585	132,392
Amortization	33,330	35,188	68,518	33,294	39,694	72,988

To be in compliance with the Company Act, the Company stipulated to distribute employees' compensation and remuneration to directors at the rates no less than 1% and no higher than 1%, respectively, of profit before income tax, employees' compensation, and remuneration to directors.

The employees' compensation and remuneration to directors for 2018 and 2017 which have been approved in the Board of Directors' meetings on February 1, 2019 and January 26, 2018, respectively, were as follows:

	For the Year Ended December 31			
	2018		2017	
	Amount	**%**	**Amount**	**%**
Employees' cash compensation	$ 50,428	6	$ 49,360	6
Remuneration of directors	8,405	1	8,227	1

If there is a change in the proposed amounts after the annual financial statements were authorized for issue, the differences are recorded as a change in accounting estimate. There was no difference between the actual amounts of employees' compensation and remuneration to directors and supervisors paid and the amounts recognized in the financial statements for the year ended December 31, 2017 and 2016.

Information on the employees' compensation and remuneration to directors resolved by the Company's Board of Directors in 2019 and 2018 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

21. EARNINGS PER SHARE

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

	Amounts (Numerator)	**Shares (Denominator) (In Thousands)**	**EPS (NT$)**
For the year ended December 31, 2018			
Net profit	$ 710,633		
Basic EPS			
Earnings used in the computation of basic EPS	710,633	207,554	$ 3.42
Effect of potentially dilutive ordinary shares			
Employee's compensation	-	1,270	
Diluted EPS			
Earnings used in the computation of diluted EPS	$ 710,633	208,824	3.40
For the year ended December 31, 2017			
Net profit	$ 688,133		
Basic EPS			
Earnings used in the computation of basic EPS	688,133	207,554	3.32
Effect of potentially dilutive ordinary shares			
Employee's compensation	-	771	
Diluted EPS			
Earnings used in the computation of diluted EPS	$ 688,133	208,325	3.30

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

22. OPERATING LEASE ARRANGEMENTS

The Company as Lessee

a. Lease arrangements

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

The Company leased land from Taiwan Sugar Corporation under a twenty-year term from October 2014 to September 2034, which can be extended after the expiration of the lease. The chairman of the Company is a joint guarantor of such lease; refer to Note 25.

The Company leased some of offices, and these leases will expire between 2020 and 2022, but can be extended after the expiration of the lease periods.

As of December 31, 2018 and 2017, refundable deposits paid under operating leases amounted to $30,845 thousand and $30,783 thousand, respectively.

b. Prepayments for lease obligations

	December 31	
	2018	**2017**
Current (recorded as “other current assets”)	$ 3,463	$ 3,445
Non-current (recorded as “other non-current assets”)	35,129	37,510
	$ 38,592	$ 40,955

Prepaid lease payments include Taiwan Sugar Corporation’s land use right, which is located in Tainan.

c. Lease expense

	For the Year Ended December 31	
	2018	**2017**
Lease expenditure	$ 38,096	$ 38,380

23. CAPITAL MANAGEMENT

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

24. FINANCIAL INSTRUMENT

a. Categories of financial instruments

	December 31			
	2018		2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Measured at amortized cost				
Cash and cash equivalents	$ 960,293	$ 960,293	$ -	$ -
Notes and accounts receivable	602,000	602,000	-	-
Accounts receivable due from related parties	332,028	332,028	-	-
Other receivables	1,626	1,626	-	-
Refundable deposits paid	75,707	75,707	-	-
Loans and receivables				
Cash and cash equivalents	-	-	607,505	607,505
Notes and accounts receivable	-	-	542,941	542,941
Accounts receivable due from related parties	-	-	228,732	228,732
Other receivables	-	-	320,647	320,647
Refundable deposits paid	-	-	65,737	65,737
Financial assets at FVTPL				
Derivative financial instruments	763	763	1,710	1,710
Financial assets at FVTOCI	493,166	493,166	-	-
Available-for-sale financial assets	-	-	183,199	183,199
Financial assets measured at cost	-	-	301,493	301,347
Financial liabilities				
Measured at amortized cost				
Accounts payable	888,249	888,249	934,066	934,066
Other payables	914,410	914,410	920,765	920,765
Guarantee deposits (recorded in other non-current liabilities)	1,573	1,573	9,093	9,093
Long-term contract payable (recorded in other non-current liabilities)	-	-	10,551	10,551

b. Fair value information

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

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

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

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

2) Fair value measurements recognized in the balance sheets

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

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

   c) Domestic unlisted equity instrument at FVTOCI were all measured based on Level 3. Fair values of the above equity instruments were determined using comparable listed company approach, refer to strike price of similar business at active market, implied value multiple of the price and relevant information. Significant unobservable inputs included PE ratio, value multiple and market liquidity discount.

3) Financial instruments that are not measured at fair value

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

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

	December 31, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at FVTPL				
Derivatives	$ -	$ 763	$ -	$ 763
Financial assets at FVTOCI				
Domestic listed and emerging securities	$ 74,433	$ -	$ -	$ 74,433
Domestic unlisted securities	$ -	$ -	$ 418,733	$ 418,733

	December 31, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at FVTPL				
Derivatives	$ -	$ 1,710	$ -	$ 1,710
Available-for-sale financial assets				
Domestic listed equity securities	$ 183,199	$ -	$ -	$ 183,199

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

	December 31, 2017				
	Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at cost					
Domestic emerging equity securities	$ 493	$ -	$ 347	$ -	$ 347

The emerging securities held by the Company were determined as active market, and were transferred from Level 2 to Level 1 this year.

c. Financial risk management objectives and policies

The Company sought to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives was governed by the Company's policies approved by the Board of Directors, which provide written principles on foreign exchange risk, and use of financial derivatives. Compliance with policies and exposure limits was reviewed by the internal auditors on a continuous basis.

1) Market risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Company uses forward foreign exchange contracts to hedge the foreign currency risk on export.

a) Foreign currency risk

The Company is engaged in foreign currency transaction and thus it is exposed to the risk of changes in foreign currency exchange rates. The Company uses forward foreign exchange contracts to hedge the exchange rate risk within approved policy parameters utilizing forward foreign exchange contracts.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are set out in Note 29.

The sensitivity analysis included only outstanding foreign currency denominated monetary items at the end of the reporting period and assuming an increase in net income and equity if New Taiwan dollars strengthen by 1% against foreign currencies. For a 1% weakening of New Taiwan dollars against the relevant currency, there would be impact on net income in the amounts of $4,069 thousand and $2,449 thousand decrease for the years ended December 31, 2018 and 2017, respectively. The amounts included above for a 1% weakening of New Taiwan dollars against the relevant currency is without considering the impact of hedge contracts and hedged item.

b) Interest rate risk

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

As of December 31, 2018 and 2017, the carrying amount of the Company's floating rate deposits with exposure to interest rates was $105,566 thousand and $5,619 thousand, respectively.

The sensitivity analyses below were determined based on the Company's exposure to interest rates for fair value of variable-rate derivative instruments at the end of the reporting period. If interest rates had been higher by one percentage point, the Company's cash flows for the years ended December 31, 2018 and 2017 would have increased by $1,056 thousand and $56 thousand, respectively.

2) Credit risk

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

3) Liquidity risk

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

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

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

	December 31, 2017			
	Within 1 Year	**1-2 Years**	**Over 2 Years**	**Total**
Non-derivative financial liabilities				
Non-interest bearing	$ 1,854,831	$ 10,551	$ -	$ 1,865,382

25. RELATED PARTY TRANSACTIONS

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

Related Party	Relationship with the Company
Winbond Electronics Corporation ("WEC")	Parent company
Nuvoton Electronics Technology (H.K.) Limited ("NTHK")	Subsidiary
Nuvoton Electronics Technology (Shenzhen) Limited ("NTSZ")	Subsidiary
Nuvoton Technology Corporation America ("NTCA")	Subsidiary
Nuvoton Technology Israel Ltd. ("NTIL")	Subsidiary
Song Yong Investment Corporation ("SYI")	Subsidiary

(Continued)

Related Party	Relationship with the Company
Techdesign Corporation (“Techdesign”)	Associate
Winbond Electronics Corporation Japan (“WECJ”)	Associate
Callisto Holding Limited	Associate
Nyquest Technology Co., Ltd. (“Nyquest”)	Related party in substance
Walton Advanced Engineering Inc.	Related party in substance
Chin Cherng Construction Co., Ltd.	Related party in substance

(Concluded)

b. Operating activities

	For the Year Ended December 31	
	2018	2017
1) Operating revenue		
Subsidiary		
NTHK	$ 3,790,977	$ 3,388,590
Others	122,169	143,812
Related party in substance	247,388	232,397
Associate	85,611	100,912
	$ 4,246,145	$ 3,865,711
2) Purchase		
Parent company	$ 103,274	$ 164,475
3) Selling expenses		
Subsidiary	$ 2,092	$ -
Associate	2	-
	$ 2,094	$ -
4) General and administrative expenses		
Subsidiary		
NTIL	$ 49,582	$ 51,012
Others	34,202	36,359
Parent company	7,818	20,724
Related party in substance	10,538	10,538
	$ 102,140	$ 118,633
5) Research and development expenses		
Subsidiary		
NTIL	$ 604,928	$ 619,919
NTCA	257,911	251,653
Parent company	453	9,106
	$ 863,292	$ 880,678

	For the Year Ended December 31	
	2018	2017
6) Other income		
Related party in substance		
Nyquest	$ 9,926	$ 8,508

	December 31	
	2018	2017
7) Accounts receivable due from related parties		
Subsidiary		
NTHK	$ 233,440	$ 148,165
Others	36,282	29,453
Related party in substance	44,298	33,546
Associate	18,008	17,568
	$ 332,028	$ 228,732
8) Other receivables		
Parent company	$ 347	$ 745
Associate	7	-
	$ 354	$ 745
9) Refundable deposits paid		
Related party in substance	$ 1,722	$ 1,722
10) Accounts payable to related parties		
Parent company	$ 15,700	$ 24,174
11) Other payables		
Subsidiary		
NTIL	$ 100,770	$ 117,745
Others	1,553	2,690
Parent company	3,215	3,006
	$ 105,538	$ 123,441
12) Guarantee deposits		
Parent company	$ 545	$ 545
Associate	-	151
	$ 545	$ 696

Sales and purchase of goods with related party were conducted under normal prices and terms. The trading conditions of other related party transactions were resolved between the Company and related party.

13) Guarantee

As of December 31, 2018, the chairman of the Company is a joint guarantor of the land-lease from Taiwan Sugar Corporation. Refer to Note 22.

14) Compensation of key management personnel

	For the Year Ended December 31	
	2018	2017
Short-term employment benefits	$ 54,725	$ 58,305
Post-employment benefits	1,261	1,683
	$ 55,986	$ 59,988

The remuneration of directors and key management personnel was determined by the remuneration committee based on the performance of individuals and market trends.

26. PLEDGED AND COLLATERALIZED ASSETS

Refer to Note 6.

27. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

As of December 31, 2018 and 2017 amounts available under unused letters of credit were approximately US$180 thousand and $254 thousand, respectively.

28. SUBSEQUENT EVENTS

In January 2019 Microchip Technology Inc. (Listed Company in United States) filed a first Amended Complaint in the District Court for the District of Delaware. Microchip alleges that the Company and NTCA infringe Microchip's patents. The case is still in its initial stage, and its impact on the Company is uncertain for the moment.

29. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

	December 31					
	2018			2017		
	Foreign Currencies (Thousand)	Exchange Rate	New Taiwan Dollars (Thousand)	Foreign Currencies (Thousand)	Exchange Rate	New Taiwan Dollars (Thousand)
Financial assets						
Monetary items						
USD	$ 31,570	30.715	$ 969,674	$ 27,701	29.76	$ 824,394
ILS	12,375	8.1494	100,846	11,553	8.5791	99,111
EUR	83	35.20	2,905	13	35.57	470
Investments accounted for using equity method						
USD	14,831	30.715	455,532	14,666	29.76	436,464
INR	49,650	0.4387	21,781	51,361	0.4662	23,944
Financial liabilities						
Monetary items						
USD	17,674	30.715	542,864	18,753	29.76	558,087
ILS	12,365	8.1494	100,770	13,725	8.5791	117,745
EUR	536	35.20	18,868	152	35.57	5,396

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

	For the Year Ended December 31			
	2018		2017	
Foreign Currencies	Exchange Rate	Net Foreign Exchange Gain (Loss)	Exchange Rate	Net Foreign Exchange Gain (Loss)
USD	30.150 (USD:NTD)	$ 16,900	30.43 (USD:NTD)	$ (3,002)
ILS	8.3914 (ILS:NTD)	(2,705)	8.4539 (ILS:NTD)	(1,019)
EUR	35.61 (EUR:NTD)	(22)	34.35 (EUR:NTD)	(84)
		$ 14,173		$ (4,105)

30. OPERATING SEGMENTS INFORMATION

The Company has provided the operating segments disclosure in its consolidated financial statements; therefore, the Company does not provided relevant information in these parent company only financial statements.