

eMemory Technology Inc.

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

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
eMemory Technology Inc.

Opinion

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

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

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and 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 Parent Company Only 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 parent company only financial statements for the year ended December 31, 2018. These matters were addressed in the context of our audit of the parent company only financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter for the Company's parent company only financial statements for the year ended December 31, 2018 are stated as follows:

1. The major revenue source of the Company is royalty revenue, refer to Note 20 for related information. To elaborate, when IC design companies' products with the silicon intellectual property of the Company are expected to be mass produced and shipped from the wafer foundries, the wafer foundries will pay a certain percentage of royalty fee based on the wafer price.
2. The Company recognizes royalty revenue based on the contracts and the time when the royalty reports are signed back. The related risks may exist if the royalty revenue from wafer foundries is not recognized at the appropriate time.

3. To verify the accuracy and recognition timing of the royalty revenue, we established the revenue recognition policy of the Company, assessed the reasonableness of the revenue recognition timing, performed relevant control tests and analytical procedures, as well as traced a certain number of royalty revenue transactions before and after the end of reporting period with relevant supporting documents and accounting records.

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

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

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

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

Auditors' Responsibilities for the Audit of the Parent Company Only Financial Statements

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the parent company only financial statements 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 Yih-Shin Kao and Su-Li Fang.

Deloitte & Touche
Taipei, Taiwan
Republic of China

February 26, 2019

Notice to Readers

The accompanying parent company only financial statements are intended only to present the parent company only financial position, parent company only financial performance and parent company only 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 parent company only financial statements are those generally applied in the Republic of China.

For the convenience of readers, the independent auditors' report and the accompanying parent company only 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 parent company only financial statements shall prevail.

EMEMORY TECHNOLOGY INC.

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

ASSETS	2018		2017		LIABILITIES AND EQUITY	2018		2017	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash (Notes 3, 4 and 6)	\$ 1,302,003	62	\$ 1,663,684	69	Contract liabilities - current (Notes 3, 20 and 27)	\$ 37,822	2	\$ -	-
Accounts receivable - net (Notes 3, 4, 5 11 and 20)	158,335	8	82,457	4	Other payables (Note 16)	94,104	5	80,927	3
Other receivables (Notes 3 and 4)	225	-	238	-	Bonuses payable to employees and directors (Note 21)	138,092	7	133,625	6
Other receivables - related parties (Notes 3, 4 and 27)	251	-	577	-	Payables on equipment	6,241	-	5,189	-
Prepayments	19,889	1	17,998	1	Current tax liabilities (Notes 4 and 22)	71,897	3	61,476	3
Other current assets (Notes 3, 4 and 15)	2,902	-	2,023	-	Other current liabilities (Notes 3, 16 and 27)	1,616	-	34,922	1
Total current assets	<u>1,483,605</u>	<u>71</u>	<u>1,766,977</u>	<u>74</u>	Total current liabilities	<u>349,772</u>	<u>17</u>	<u>316,139</u>	<u>13</u>
NON-CURRENT ASSETS					NON-CURRENT LIABILITIES				
Financial assets at fair value through other comprehensive income - noncurrent (Notes 3, 4, 7 and 26)	19,180	1	-	-	Net defined benefit liabilities - noncurrent (Notes 4 and 17)	20,334	1	19,242	1
Financial assets at amortized cost - noncurrent (Notes 3, 4, 8 and 28)	33,612	2	-	-	Guarantee deposits received (Notes 24 and 27)	530	-	530	-
Financial assets measured at cost - noncurrent (Notes 3, 4 and 9)	-	-	8,406	-	Total non-current liabilities	<u>20,864</u>	<u>1</u>	<u>19,772</u>	<u>1</u>
Investments in debt instrument without active market - noncurrent (Notes 3, 4, 10 and 28)	-	-	33,611	1	Total liabilities	<u>370,636</u>	<u>18</u>	<u>335,911</u>	<u>14</u>
Investment accounted for using equity method (Notes 4 and 12)	6,046	-	10,393	-	EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY (Notes 3, 4, 18 and 19)				
Property, plant and equipment (Notes 4 and 13)	491,533	23	505,337	21	Ordinary shares	<u>757,908</u>	<u>36</u>	<u>757,823</u>	<u>31</u>
Intangible assets (Notes 4 and 14)	67,162	3	62,430	3	Capital surplus	<u>416,537</u>	<u>20</u>	<u>427,496</u>	<u>18</u>
Deferred tax assets (Notes 4 and 22)	2,708	-	2,108	-	Retained earnings				
Prepayments for equipment	-	-	11,493	1	Legal reserve	340,160	16	280,298	12
Refundable deposits	331	-	315	-	Special reserve	926	-	926	-
Total non-current assets	<u>620,572</u>	<u>29</u>	<u>634,093</u>	<u>26</u>	Unappropriated earnings	<u>684,180</u>	<u>32</u>	<u>598,616</u>	<u>25</u>
					Total retained earnings	<u>1,025,266</u>	<u>48</u>	<u>879,840</u>	<u>37</u>
					Other equity	<u>(61,932)</u>	<u>(3)</u>	<u>-</u>	<u>-</u>
					Treasury shares	<u>(404,238)</u>	<u>(19)</u>	<u>-</u>	<u>-</u>
					Total equity	<u>1,733,541</u>	<u>82</u>	<u>2,065,159</u>	<u>86</u>
TOTAL	<u>\$ 2,104,177</u>	<u>100</u>	<u>\$ 2,401,070</u>	<u>100</u>	TOTAL	<u>\$ 2,104,177</u>	<u>100</u>	<u>\$ 2,401,070</u>	<u>100</u>

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

EMEMORY TECHNOLOGY INC.

PARENT COMPANY ONLY 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 (Notes 4, 20 and 27)	\$ 1,476,516	100	\$ 1,375,758	100
OPERATING COSTS	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
GROSS PROFIT	<u>1,476,516</u>	<u>100</u>	<u>1,375,758</u>	<u>100</u>
OPERATING EXPENSES (Notes 21 and 27)				
Selling and marketing expenses	120,678	8	120,479	9
General and administrative expenses	169,610	11	165,328	12
Research and development expenses	505,475	34	485,697	35
Expected credit loss (Notes 4, 5, 11)	<u>8,018</u>	<u>1</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>803,781</u>	<u>54</u>	<u>771,504</u>	<u>56</u>
OPERATING INCOME	<u>672,735</u>	<u>46</u>	<u>604,254</u>	<u>44</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Notes 4, 21 and 27)	25,024	2	20,684	2
Other gains and losses (Notes 4 and 21)	5,428	-	(9,332)	(1)
Share of loss of associates (Notes 4 and 12)	<u>(4,356)</u>	<u>-</u>	<u>60,708</u>	<u>4</u>
Total non-operating income and expenses	<u>26,096</u>	<u>2</u>	<u>72,060</u>	<u>5</u>
PROFIT BEFORE INCOME TAX	698,831	48	676,314	49
INCOME TAX EXPENSE (Notes 4 and 22)	<u>85,725</u>	<u>6</u>	<u>77,605</u>	<u>5</u>
NET PROFIT FOR THE YEAR	<u>613,106</u>	<u>42</u>	<u>598,709</u>	<u>44</u>
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Notes 4 and 17)	(1,650)	-	(262)	-
Unrealized gain on investments in equity instruments at fair value through other comprehensive income (Notes 3, 4 and 18)	<u>1,060</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other comprehensive income for the year	<u>(590)</u>	<u>-</u>	<u>(262)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 612,516</u>	<u>42</u>	<u>\$ 598,447</u>	<u>44</u>
EARNINGS PER SHARE (Note 23)				
Basic	<u>\$ 8.13</u>		<u>\$ 7.90</u>	
Diluted	<u>\$ 8.07</u>		<u>\$ 7.86</u>	

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

EMEMORY TECHNOLOGY INC.
**STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)**

	Ordinary Shares		Capital Surplus	Retained Earnings			Total	Other Equity Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Treasury Shares	Total Equity
	Shares (In Thousands)	Amount		Legal Reserve	Special Reserve	Unappropriated Earnings				
BALANCE, JANUARY 1, 2017	75,783	\$ 757,823	\$ 448,025	\$ 231,737	\$ 926	\$ 485,615	\$ 718,278	\$ -	\$ -	\$ 1,924,126
Appropriation of 2016 earnings										
Legal reserve	-	-	-	48,561	-	(48,561)	-	-	-	-
Cash dividends distributed by the Company	-	-	-	-	-	(436,885)	(436,885)	-	-	(436,885)
Change in capital surplus from investments in associates accounted for by using equity method	-	-	10,012	-	-	-	-	-	-	10,012
Issuance of cash dividends from capital surplus	-	-	(55,700)	-	-	-	-	-	-	(55,700)
Net profit for the year ended December 31, 2017	-	-	-	-	-	598,709	598,709	-	-	598,709
Other comprehensive income for the year ended December 31, 2017	-	-	-	-	-	(262)	(262)	-	-	(262)
Total comprehensive income for the year ended December 31, 2017	-	-	-	-	-	598,447	598,447	-	-	598,447
Share-based payment	-	-	25,159	-	-	-	-	-	-	25,159
BALANCE, DECEMBER 31, 2017	75,783	757,823	427,496	280,298	926	598,616	879,840	-	-	2,065,159
Effect of retrospective application	-	-	-	-	-	72,706	72,706	(62,992)	-	9,714
ADJUSTED JANUARY 1, 2018	75,783	757,823	427,496	280,298	926	671,322	952,546	(62,992)	-	2,074,873
Appropriation of 2017 earnings										
Legal reserve	-	-	-	59,862	-	(59,862)	-	-	-	-
Cash dividends distributed by the Company	-	-	-	-	-	(538,736)	(538,736)	-	-	(538,736)
Change in capital surplus from investments in associates accounted for by using equity method	-	-	9	-	-	-	-	-	-	9
Issuance of cash dividends from capital surplus	-	-	(29,631)	-	-	-	-	-	-	(29,631)
Net profit for the year ended December 31, 2018	-	-	-	-	-	613,106	613,106	-	-	613,106
Other comprehensive income for the year ended December 31, 2018	-	-	-	-	-	(1,650)	(1,650)	1,060	-	(590)
Total comprehensive income for the year ended December 31, 2018	-	-	-	-	-	611,456	611,456	1,060	-	612,516
Issuance of ordinary shares under employee share options	8	85	2,794	-	-	-	-	-	-	2,879
Buy-back of ordinary shares	-	-	-	-	-	-	-	-	(404,238)	(404,238)
Share-based payment	-	-	15,869	-	-	-	-	-	-	15,869
BALANCE, DECEMBER 31, 2018	75,791	\$ 757,908	\$ 416,537	\$ 340,160	\$ 926	\$ 684,180	\$ 1,025,266	\$ (61,932)	\$ (404,238)	\$ 1,733,541

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

EMEMORY TECHNOLOGY INC.

PARENT COMPANY ONLY 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	\$ 698,831	\$ 676,314
Adjustments for:		
Depreciation expenses	37,402	31,383
Amortization expenses	13,202	11,183
Expected credit loss/bad debt expense	8,018	1,587
Interest income	(10,663)	(9,451)
Dividend income	(943)	(539)
Share-based payment	15,869	25,159
Share of loss of associates	4,356	(60,708)
Loss on disposal of property, plant and equipment	278	-
Gain on disposal of investments	(79)	(6)
Net (gain) loss on foreign currency exchange	(1,015)	5,945
Changes in operating assets and liabilities		
Accounts receivable	(83,763)	(22,703)
Accounts receivable - related parties	-	1,683
Other receivables - related parties	326	(533)
Prepayments	(1,895)	(4,326)
Other current assets	(879)	(500)
Contract liabilities	4,351	-
Other payables	13,176	(16,159)
Other current liabilities	165	11,002
Net defined benefit liabilities	(558)	(543)
Bonuses payable to employees and directors	4,467	24,023
Cash generated from operations	700,646	672,811
Interest received	10,676	9,453
Income tax paid	(75,900)	(29,695)
Net cash generated from operating activities	<u>635,422</u>	<u>652,569</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets at amortized cost	(1)	-
Acquisition of financial assets at fair value through profit or loss	(600,000)	-
Proceeds from disposal of financial assets at fair value through profit or loss	600,079	-
Acquisition of available-for-sale financial assets	-	(40,000)
Proceeds from disposal of available-for-sale financial assets	-	40,006
Increase in debt investments without active market	-	(1)
Net cash flow on merger of subsidiaries	-	102,577
Acquisition of property, plant and equipment	(11,335)	(34,616)
Increase in refundable deposits	(16)	(15)
Acquisition of intangible assets	(17,934)	(18,817)
Increase in prepayments for equipment	-	(11,493)
Dividend received	943	63,219
Net cash (used in) generated from investing activities	<u>(28,264)</u>	<u>100,860</u>

(Continued)

EMEMORY TECHNOLOGY INC.

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

	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in guarantee deposits received	\$ -	\$ 115
Dividends paid	(568,353)	(492,585)
Exercise of employee share options	2,879	-
Payments for buy-back of ordinary shares	<u>(404,238)</u>	<u>-</u>
Net cash used in financing activities	<u>(969,712)</u>	<u>(492,470)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>873</u>	<u>(2,518)</u>
NET(DECREASE) INCREASE IN CASH	(361,681)	258,441
CASH AT THE BEGINNING OF THE YEAR	<u>1,663,684</u>	<u>1,405,243</u>
CASH AT THE END OF THE YEAR	<u>\$ 1,302,003</u>	<u>\$ 1,663,684</u>

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

EMEMORY TECHNOLOGY INC.

NOTES TO PARENT COMPANY ONLY FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

eMemory Technology Inc. (the “Company”) was incorporated in Hsinchu City, Republic of China, and commenced business in September 2000. The Company’s main business activities include researching, developing, manufacturing and selling embedded flash memory products, etc.

The Company’s shares have been listed on the TPEx since January 2011.

The parent company only financial statements are presented in the Company’s functional currency, New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The parent company only financial statements were approved by the board of directors and authorized for issue on February 26, 2019.

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

- a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and Interpretations of IAS (SIC) (collectively, “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 amendments

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 starting 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 as of December 31, 2017.

Classification, measurement and impairment of financial assets

On the basis of the facts and circumstances that existed as of 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 as of January 1, 2018.

Financial Assets	Measurement Category			Carrying Amount		Remark
	IAS 39		IFRS 9	IAS 39	IFRS 9	
Cash and cash equivalents	Loans and receivables		Amortized cost	\$ 1,663,684	\$ 1,663,684	
Equity securities	Available-for-sale		Fair value through other comprehensive income (i.e. FVTOCI) - equity instruments	8,406	18,120	(1)
Time deposits with original maturities of more than 1 year	Loans and receivables		Amortized cost	33,500	33,500	
Financial Assets pledged as collateral	Loans and receivables		Amortized cost	111	111	
Accounts receivables and other receivables (include related parties)	Loans and receivables		Amortized cost	83,272	83,272	(2)
Other assets-current	Loans and receivables		Amortized cost	2,016	2,016	

Financial Assets	IAS 39 Carrying Amount as of January 1, 2018	Reclassifications	Remeasurements	IFRS 9 Carrying Amount as of January 1, 2018	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018	Remark
FVTOCI-Equity instruments	\$ -	\$ 8,406	\$ 9,714	\$ 18,120	\$ 72,706	\$ (62,992)	(1)
Add: Reclassification from available-for-sale (IAS 39)	8,406	(8,406)	-	-	-	-	(1)
Amortized cost	8,406	-	9,714	18,120	72,706	(62,992)	(2)
Add: Reclassification from loans and receivables (IAS 39)	1,782,583	(1,782,583)	-	-	-	-	(2)
	1,782,583	-	-	1,782,583	-	-	
	<u>\$ 1,790,989</u>	<u>\$ -</u>	<u>\$ 9,714</u>	<u>\$ 1,800,703</u>	<u>\$ 72,706</u>	<u>\$ (62,992)</u>	

(1) Investments in unlisted shares previously measured at cost under IAS 39 have been classified at FVTOCI under IFRS 9 and were remeasured at fair value. Consequently, an increase of \$9,714 thousand was recognized in both financial assets at FVTOCI and other equity - unrealized gain (loss) 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 at FVTOCI under IFRS 9 and no impairment assessment is required, an adjustment was made that resulted in a decrease of \$72,706 thousand in other equity - unrealized gain (loss) on financial assets at FVTOCI and an increase of \$72,706 thousand in retained earnings on January 1, 2018.

(2) Accounts receivables and other receivables that were previously classified as loans and receivables under IAS 39 were classified as at amortized cost with an assessment of expected credit losses under IFRS 9.

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

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

Under IFRS 15, the net effect of revenue recognized and consideration received and receivable is recognized as a contract asset or a contract liability. Prior to the application of IFRS 15, receivables were recognized or deferred revenue was reduced when revenue was recognized for the relevant contract under IAS 18.

The Company elected only to retrospectively apply IFRS 15 to contracts that were not complete as of January 1, 2018 and recognize the cumulative effect of the change in retained earnings on January 1, 2018.

Impact on assets, liabilities and equity for current year

	As Originally Stated on January 1, 2018	Adjustments Arising from Initial Application	Restated on January 1, 2018
Contract liabilities - current	\$ -	\$ 33,471	\$ 33,471
Advance receives(Other current liabilities)	<u>33,471</u>	<u>(33,471)</u>	<u>-</u>
Total effect on liabilities	<u>\$ 33,471</u>	<u>\$ -</u>	<u>\$ 33,471</u>

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

<u>New, Amended or Revised Standards and Interpretations</u>	<u>Effective Date Announced by IASB (Note 1)</u>
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 that will supersede IAS 17 “Leases”, IFRIC 4 “Determining Whether an Arrangement Contains a Lease” and a number of related interpretations.

Upon initial application of IFRS 16, the Company will elect to apply the guidance of IFRS 16, in determining whether contracts are, or contain, a lease, only to contracts entered into (or changed) on or after January 1, 2019. Contracts identified as containing a lease under IAS 17 and IFRIC 4 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, the Company will recognize right-of-use assets and lease liabilities for all leases on the parent company only balance sheets except for those whose payments under low-value asset and short-term leases will be recognized as expenses on a straight-line basis. On the parent company only 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; interest is computed using the effective interest method. On the parent company only 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 financing 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 parent company only statements of cash flows.

The Company anticipates applying IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized on January 1, 2019. Comparative information will not be restated.

Lease liabilities will be recognized on January 1, 2019 for leases currently classified as operating leases with the application of IAS 17. Lease liabilities will be measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets will be measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. Except for the following practical expedients which are to be applied, the Company will apply IAS 36 to all right-of-use assets.

The Company expects to apply the following practical expedients:

- a) The Company will apply a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- b) The Company will account for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.
- c) The Company will exclude initial direct costs from the measurement of right-of-use assets on January 1, 2019.
- d) The Company will use hindsight, such as in determining lease terms, to measure lease liabilities.

The Company as lessor

The Company will not make any adjustments for leases in which it is a lessor and will account for those leases with the application of IFRS 16 starting from January 1, 2019.

The Company leased dormitories from the Hsinchu Science Park Bureau and subleased its leasehold dormitory to employees. The Company will assess the sublease classification as an operating lease, 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

	Carrying Amount as of December 31, 2018	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2019
Right-of-use assets	\$ -	\$ 8,986	\$ 8,986
Total effect on assets	<u>\$ -</u>	<u>\$ 8,986</u>	<u>\$ 8,986</u>
Lease liabilities - current	\$ -	\$ 2,781	\$ 2,781
Lease liabilities - non-current	<u>-</u>	<u>6,205</u>	<u>6,205</u>
Total effect on liabilities	<u>\$ -</u>	<u>\$ 8,986</u>	<u>\$ 8,986</u>

Except for the above impacts, as of the date the parent company only financial statements were authorized for issue, the Company assessing the application of the aforementioned amendments and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers would not have any material impact on the Company's financial position and financial performance.

- c. New IFRSs issued by IASB but not yet endorsed and issued into effect by the FSC

<u>New, Amended or Revised Standards and Interpretations</u>	<u>Effective Date Announced by IASB (Note 1)</u>
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 parent company only 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

- a. Statement of compliance

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

b. Basis of preparation

The parent company only financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value and net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

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

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- 3) Level 3 inputs are unobservable inputs for an asset or liability.

When preparing its parent company only financial statements, the Company used equity method to account for its investment in subsidiaries and associates. In order for the amounts of the net profit for the year, other comprehensive income for the year and total equity in the parent company only financial statements to be the same with the amounts attributable to the owner of the Company in its consolidated financial statements, adjustments arising from the differences in accounting treatment between parent company only basis and consolidated basis were made to investments accounted for using equity method, share of profit or loss of subsidiaries and associates, as appropriate, in the parent company only financial statements.

c. Classification of current and non-current assets and liabilities

Current assets include:

- 1) Assets held primarily for the purpose of trading;
- 2) Assets expected to be realized within 12 months after the reporting period; and
- 3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within 12 months after the reporting period; and
- 3) Liabilities for which the Company does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

Assets and liabilities that are not classified as current are classified as non-current.

d. Business combinations

Business combinations involving entities under common control are not accounted for by the acquisition method but are accounted for at the carrying amounts of the entities.

e. Foreign currencies

In preparing the Company's financial statements, transactions in currencies other than the Company's functional currency (i.e. foreign currencies) 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 or translation are recognized in profit or loss in the period in which they arise.

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

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

f. Investments in subsidiaries

The Company uses the equity method to account for its investments in subsidiaries.

A subsidiary is an entity that is controlled by the Company.

Under the equity method, investments in subsidiaries are initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the subsidiary. The Company also recognizes the changes in the Company's share of equity of subsidiaries.

The Company assesses its investment for any impairment by comparing the carrying amount with the estimated recoverable amount as assessed based on the investee's financial statements as a whole. Impairment loss is recognized when the carrying amount exceeds the recoverable amount. If the recoverable amount of the investment subsequently increases, the Company recognizes a reversal of the impairment loss; the adjusted post-reversal carrying amount should not exceed the carrying amount that would have been recognized (net of amortization or depreciation) had no impairment loss been recognized in prior years. An impairment loss recognized on goodwill cannot be reversed in a subsequent period.

g. Investments in associates

An associate is an entity over which the Company has significant influence and which is neither a subsidiary nor an interest in a joint venture. The Company uses the equity method to account for its investments in associates.

Under the equity method, investments in associates are initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the associate. The Company also recognizes the changes in the Company's share of the equity of associates.

When the Company subscribes for additional new shares of an associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Company's proportionate interest in the associate. The Company records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in capital surplus from investments in associates accounted for using the equity method. If the Company's ownership interest is reduced due to its additional subscription of the new shares of the associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis as

would be required had the investee directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for using the equity method is insufficient, the shortage is debited to retained earnings.

The entire carrying amount of an investment is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is not allocated to any asset that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

When the Company entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Company's parent company only financial statements only to the extent of interests in the associate that are not related to the Company.

h. Property, plant and equipment

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

Depreciation of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each year, with the effects of any changes in the estimates accounted for on a prospective basis.

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

i. Intangible assets

1) Intangible assets acquired separately

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 on a straight-line basis. The estimated useful lives, residual values, and amortization methods are reviewed at the end of each year, with the effect of any changes in the estimates accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

2) Internally-generated intangible assets - research and development expenditures

Expenditures on research activities are recognized as expenses in the period in which they are incurred.

An internally-generated intangible asset arising from the development phase of an internal project is recognized if, and only if, all of the following have been demonstrated:

- a) The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- b) The intention to complete the intangible asset and use or sell it;
- c) The ability to use or sell the intangible asset;
- d) How the intangible asset will generate probable future economic benefits;
- e) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

- f) The ability to measure reliably the expenditures attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditures incurred from the date when such an intangible asset first meets the recognition criteria listed above. Subsequent to initial recognition, such intangible assets are measured on the same basis as intangible assets that are acquired separately.

3) Derecognition of intangible assets

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.

j. 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 for any indication of 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. When it is not possible to estimate the recoverable amount of a corporate asset, the asset is tested for impairment in the context of the cash-generating unit (CGU) to which the asset belongs. If a portion of the carrying amount of the asset can be allocated on a reasonable and consistent basis to the CGU, the Company compares the carrying amount of the CGU, including the portion of the asset's carrying amount allocated to the CGU, with the recoverable amount of the CGU to which the asset belongs. If this reasonable and consistent basis of allocation cannot be applied to the CGU to which the asset belongs and can be applied instead to the smallest Company of CGUs to which the CGU belongs, this smallest Company is used for impairment testing.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the assets may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

When an impairment loss is subsequently reversed, the carrying amount of the corresponding asset, cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset, cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

k. Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss (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.

1) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

a) Measurement categories

2018

Financial assets are classified into the following categories: Financial assets at amortized cost and equity instruments at fair value through other comprehensive income (FVTOCI).

i. Financial assets at amortized cost

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

- i) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- ii) 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, including cash, accounts receivable, other receivables, and other current assets, are measured at amortized cost, which equals the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

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

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

Cash include highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash are held for the purpose of meeting short-term cash commitments.

ii. Investments in equity instruments at FVTOCI

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

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

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

2017

Financial assets are classified into the following categories: Available-for-sale financial assets and loans and receivables.

i. Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at FVTPL.

Available-for-sale financial assets are measured at fair value. Changes in the carrying amounts of available-for-sale monetary financial assets relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when such investments are disposed of or are 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 presented as a separate line item as financial assets measured 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 the carrying amount and the fair value of such financial assets is recognized in other comprehensive income. Any impairment losses are recognized in profit and loss.

ii. Loans and receivables

Loans and receivables (including accounts receivable, cash, investments in debt instrument without active market, other receivables, and other current assets) are measured using the effective interest method at amortized cost less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash include highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash are held for the purpose of meeting short-term cash commitments.

b) Impairment of financial assets

2018

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

The Company always recognizes lifetime expected credit losses (i.e. ECLs) for accounts receivable and lease receivables. For all other financial instruments, the Company recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on a financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

Expected credit losses reflect the weighted average of credit losses with the respective risks of default occurring as the weights. Lifetime ECLs represent the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECLs represent the portion of lifetime ECLs 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 loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of such a financial asset.

2017

Financial assets, other than those at FVTPL, 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, as a result of one or more events that occurred after the initial recognition of such financial assets, that the estimated future cash flows of the investment have been affected.

Financial assets at amortized cost, such as accounts receivable are assessed for impairment on an individual basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience with collecting payments, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

For financial assets carried at amortized cost, 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.

For financial assets measured at amortized cost, 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.

For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, breach of contract such as a default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or financial re-organization, or the disappearance of an active market for those financial assets because of financial difficulties.

When an available-for-sale financial asset is considered to be impaired, cumulative 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 is not reversed through profit or loss. Any increase in fair value subsequent to impairment is recognized in other comprehensive income. In respect of available-for-sale debt securities, impairment loss is subsequently reversed through profit or loss if an increase in the fair value of such an investment can be objectively related to an event occurring after the recognition of the impairment loss.

For a financial asset measured at cost, the amount of the impairment loss is measured as the difference between such an asset's carrying amount and the present value of its 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 a 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 uncollectible, they are 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 except for uncollectible accounts receivable that are written off against the allowance account.

c) Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the financial asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

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. On derecognition of an investment in a debt instrument at FVTOCI, 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. However, on derecognition of an investment in an equity instrument at FVTOCI, the cumulative gain or loss is transferred directly to retained earnings, without recycling through profit or loss.

2) Equity instruments

Equity instruments issued by the Company entity are classified as equity in accordance with the substance of the contractual arrangements and the definitions of an equity instrument.

Equity instruments issued by the Company entity are recognized at the proceeds received, net of direct issue costs.

The repurchase of the Company's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issuance or cancellation of the Company's own equity instruments.

3) Financial liabilities

a) Subsequent measurement

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

b) Derecognition of financial liabilities

The difference between the carrying amount of a financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

1. Revenue recognition

2018

The Company identifies contracts with customers, allocates the transaction price to the performance obligations and recognizes revenue when performance obligations are satisfied.

For contracts where the period between the date on which the Company transfers a promised good or service to a customer and the date on which the customer pays for that good or service is one year or less, the Company does not adjust the promised amount of consideration for the effects of a significant financing component.

1) Authorized revenue

a) Technical service revenue

The Company identifies performance obligations from contracts with customers and recognizes revenue when performance obligations are satisfied.

b) Royalty revenue

Revenue received from the intellectual property that remains operational without updated authorization or technical support is the royalty revenue. While customers use the intellectual property in mass production at the foundries, the royalty prices are determined based on production, sales or other measures and the revenue is recognized with reference to the underlying arrangements.

2017

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.

1) Revenue from the sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- a) The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- b) The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- c) The amount of revenue can be measured reliably;
- d) It is probable that the economic benefits associated with the transaction will flow to the Company; and
- e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

2) Revenue of services

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract.

Revenue from technical service is recognized in accordance with the substance of the relevant agreement provided that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably.

3) Royalty revenue

Royalty revenue is recognized on an accrual basis in accordance with the substance of the relevant agreement and provided that it is probable that the economic benefits will flow to the Company and that the amount of revenue can be measured reliably. Royalty arrangements that are based on production, sales and other measures are recognized with reference to the underlying arrangement.

4) Dividend and interest income

Dividend income from investments is recognized when a shareholder's right to receive payment has been established and provided that it is probable that the economic benefits will flow to the Company and that the amount of income can be measured reliably.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis with reference to the principal outstanding and at the applicable effective interest rate.

m. Leasing

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

1) The Company as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

2) The Company as lessee

Operating lease payments are recognized as expenses on a straight-line basis over the lease term.

n. Employee benefits

1) 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 services.

2) Retirement benefits

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

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

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

3) Other long-term employee benefits

Other long-term employee benefits are accounted for in the same way as the accounting required for defined benefit plans except that remeasurement is recognized in profit or loss.

o. Share-based payment arrangements

1) Employee share options granted to employees

The fair value at the grant date of the employee share options is expensed on a straight-line basis over the vesting period, based on the Company's best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options. It is recognized as an expense in full at the grant date if vested immediately.

At the end of each reporting period, the Company revises its estimate of the number of employee share options expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expenses reflect the revised estimate, with a corresponding adjustment to capital surplus - employee share options.

2) Cash-settled share-based payment arrangements

For cash-settled share-based payments, a liability is recognized for the goods or services acquired, measured initially at the fair value of the liability incurred. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognized in profit or loss.

p. Taxation

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

1) 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 earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, research and development expenditures to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests 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.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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.

3) Current and deferred taxes for the year

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity; in which case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity, respectively.

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.

a. Business model assessment for financial assets - 2018

The Company determines the business model at a level that reflects how Company of financial assets are managed together to achieve a particular business objective. This assessment includes judgment about all relevant evidence including how the performance of the assets is evaluated and the risks that affect the performance of the assets. The Company monitors financial assets measured at amortized cost when assets are derecognized prior to their maturity, the Company understands the reasons for their disposal and whether the reasons are consistent with the objective of the business for which the assets were held. Monitoring is part of the Company's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and, if it is not appropriate,

whether there has been a change in the business model such that a prospective change to the classification of those assets is proper.

b. Estimated impairment of financial assets - 2018

The provision for impairment of accounts receivables (include related parties) is based on assumptions about risk of default and expected loss rates. The Company uses judgment in making these assumptions and in selecting the inputs to the impairment calculation, based on the Company's historical experience, existing market conditions and industrial economic trends. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

c. Estimated impairment of accounts receivable - 2017

When there is objective evidence of impairment loss of receivables, the Company takes into consideration the estimation of the future cash flows of such assets. The amount of impairment loss is measured as the difference between such an asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

6. CASH

	December 31	
	2018	2017
Bank deposits	\$ 1,301,978	\$ 1,663,659
Cash on hand	<u>25</u>	<u>25</u>
	<u>\$ 1,302,003</u>	<u>\$ 1,663,684</u>

The market rates of cash in bank at the end of the reporting period were as follows:

	December 31	
	2018	2017
Bank deposits	0.001%-3.55%	0.001%-3.75%

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

	December 31, 2018
<u>Non-current</u>	
Investments in equity instruments at FVTOCI	<u>\$ 19,180</u>
Domestic investments	
Unlisted shares	
Ordinary shares - Powerchip Technology Corporation	\$ 12,260
Ordinary shares - Syntronix Corporation	<u>6,920</u>
	<u>\$ 19,180</u>

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 under IAS 39. Refer to Note 3 and Note 9 for information relating to their reclassification and comparative information for 2017.

8. FINANCIAL ASSETS AT AMORTIZED COST - 2018

	December 31, 2018
<u>Non-current</u>	
Domestic investments	
Time deposit with original maturity of more than 1 year	\$ 33,500
Pledged time deposits	<u>112</u>
	<u>\$ 33,612</u>

- a. The interest rates for time deposits with original maturity of more than 1 years were from 1.015% to 1.09% as at the end of the reporting period. The time deposits were classified as investments in debt instrument without active market under IAS 39. Refer to Note 3 and Note 10 for information relating to their reclassification and comparative information for 2017.
- b. Refer to Note 26 for information relating to their credit risk management and impairment of financial assets at amortized cost.
- c. Refer to Note 28 for information relating to investments in financial assets at amortized cost pledged as security.

9. FINANCIAL ASSETS MEASURED AT COST - 2017

	December 31, 2017
<u>Non-current</u>	
Domestic unlisted ordinary shares	<u>\$ 8,406</u>
Classified according to financial asset measurement categories	
Available-for-sale financial assets	<u>\$ 8,406</u>

Management believed that the fair value of the above unlisted equity investments held by the Company cannot be reliably measured due to the significant range of reasonable fair value estimates; therefore, they were measured at cost less impairment at the end of reporting period.

10. INVESTMENTS IN DEBT INSTRUMENT WITHOUT ACTIVE MARKET - 2017

	December 31, 2017
<u>Non-current</u>	
Time deposits with original maturity of more than 1 year	\$ 33,500
Pledged time deposits	<u>111</u>
	<u>\$ 33,611</u>

- a. As of December 31, 2017, the market interest rates of the time deposits with original maturities of more than 1 year were 1.015%-1.16%.
- b. Refer to Note 28 for information relating to investments in debt instrument without active market pledged as security.

11. ACCOUNTS RECEIVABLE, NET

	<u>December 31</u>	
	2018	2017
Accounts receivable	\$ 168,424	\$ 84,528
Less: Allowance for impairment loss	<u>(10,089)</u>	<u>(2,071)</u>
	<u>\$ 158,335</u>	<u>\$ 82,457</u>

For the year ended 2018

The average credit term was 30 to 60 days. No interest was charged on accounts receivable. 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.

The Company applies the simplified approach to provide expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all accounts receivable. The lifetime expected credit losses are estimated considering past default experience and current financial position of the customers as well as industrial economic conditions. The Company's expected credit loss rates are set by individual customer based on historical credit loss experience.

The Company writes off an account receivable when there is information indicating that the debtor is in severe financial difficulty, and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation. 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.

December 31, 2018

	Not Past Due	1 to 30 Days	31 to 90 Days	91 to 180 Days	Over 181 Days	Total
Gross carrying amount	\$ 119,728	\$ 11,010	\$ 28,318	\$ 9,368	\$ -	\$ 168,424
Loss allowance (lifetime ECL)	<u>(1,783)</u>	<u>-</u>	<u>(5,542)</u>	<u>(2,764)</u>	<u>-</u>	<u>(10,089)</u>
Amortized cost	<u>\$ 117,945</u>	<u>\$ 11,010</u>	<u>\$ 22,776</u>	<u>\$ 6,604</u>	<u>\$ -</u>	<u>\$ 158,335</u>

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

	2018
Balance at January 1, 2018 per IAS 39	\$ 2,071
Adjustment on initial application of IFRS 9	<u>-</u>
Balance at January 1, 2018 per IFRS 9	2,071
Add: Net remeasurement of loss allowance	<u>8,018</u>
Balance at December 31, 2018	<u>\$ 10,089</u>

For the year ended 2017

The Company applied the same credit policy in 2018 and 2017. The average credit period of sales was 30 to 60 days. No interest was charged on accounts receivable. In determining the recoverability of an account receivable, the Company considered any change in the credit quality of the account receivable since the date credit was initially granted to the end of the reporting period. Because historical experience had been that receivables that are past due beyond 180 days were likely to be irrecoverable, allowance for doubtful accounts were recognized against accounts receivable based on estimated irrecoverable amount which is determined by reference to average default days of the counterparties in the past year. The Company recognizes an allowance for doubtful accounts of 100% against all receivables from counterparties if their average default days in the past year were over 181 days.

For the accounts receivable balances that were past due at the end of the reporting period, the Company did not recognize an allowance for doubtful accounts because there was not a significant change in credit quality and the amounts were still considered recoverable. The Company did not hold any collateral or other credit enhancements for these balances.

The aging analysis of receivables was as follows:

	December 31, 2017
Not past due	\$ 62,032
1-30 days	19,247
31-90 days	868
91-180 days	<u>2,381</u>
	<u>\$ 84,528</u>

The above analysis was based on the past due date.

The aging of receivables that were past due but not impaired was as follows:

	December 31, 2017
1-30 days	\$ 17,313
31-90 days	595
91-180 days	<u>2,381</u>
	<u>\$ 20,289</u>

The above analysis was based on the past due date.

The movements of allowance for doubtful accounts were as follows:

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance at January 1, 2017	\$ 484	\$ -	\$ 484
Add: Bad debt expense recognized	<u>1,587</u>	<u>-</u>	<u>1,587</u>
Balance at December 31, 2017	<u>\$ 2,071</u>	<u>\$ -</u>	<u>\$ 2,071</u>

Age of impaired accounts receivable was as follows:

	December 31, 2017
Less than 90 days	<u>\$ 4,141</u>

The above aging of accounts receivable before deducting the allowance for doubtful accounts was presented based on the past due date.

12. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

a. Investments in subsidiaries

On October 25, 2017, the board of directors approved to merge with Lotus Glade Investment Inc. in accordance with Article 19 of the Business Mergers and Acquisitions Act. After the consolidation the Company is the surviving company while Lotus Glade Investment Inc. is the dissolved company. This merger took effect on November 28, 2017.

The investments accounted for by the equity method and the share of profit or loss and other comprehensive income of those investments from January 1 to November 28, 2017 were based on the subsidiaries' financial statements audited by the auditors during the same year.

b. Investments in associates

	December 31	
	2018	2017
Associates that are not individually material		
iMQ Technology Inc.	<u>\$ 6,046</u>	<u>\$ 10,393</u>
	Proportion of Ownership and Voting Rights	
	December 31	
Name of Associate	2018	2017
iMQ Technology Inc.	4.25%	4.25%

	Year Ended December 31	
	2018	2017
The Company's share of :		
Loss from continuing operations	\$ (4,356)	\$ (6,507)
Other comprehensive income (loss)	<u> -</u>	<u> -</u>
Total comprehensive income (loss) for the period	<u>\$ (4,356)</u>	<u>\$ (6,507)</u>

Although the shareholding ratio is less than 20%, the Company is able to exercise significant influence over iMQ Technology Inc. since the chairman of the Company is the same person as the chairman of iMQ Technology Inc. and the Company acts as the director of iMQ Technology Inc.

As the information about business nature, main operation location and the registered country. Refer to Table 2.

The investments in associates accounted for using the equity method, the share of net profit or loss and the share of other comprehensive (loss) income from investments were calculated based on the audited financial statements.

13. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Research and Development Equipment	Office Equipment	Total
<u>Cost</u>					
Balance at January 1, 2017	\$ 124,019	\$ 384,271	\$ 73,467	\$ 9,867	\$ 591,624
Additions	-	375	31,279	1,817	33,471
Disposals	<u> -</u>	<u> -</u>	<u> (7,739)</u>	<u> (1,899)</u>	<u> (9,638)</u>
Balance at December 31, 2017	<u>\$ 124,019</u>	<u>\$ 384,646</u>	<u>\$ 97,007</u>	<u>\$ 9,785</u>	<u>\$ 615,457</u>
<u>Accumulated depreciation</u>					
Balance at January 1, 2017	\$ -	\$ 57,719	\$ 25,151	\$ 5,505	\$ 88,375
Depreciation expense	-	10,957	18,311	2,115	31,383
Disposals	<u> -</u>	<u> -</u>	<u> (7,739)</u>	<u> (1,899)</u>	<u> (9,638)</u>
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ 68,676</u>	<u>\$ 35,723</u>	<u>\$ 5,721</u>	<u>\$ 110,120</u>
Carrying amounts at December 31, 2017	<u>\$ 124,019</u>	<u>\$ 315,970</u>	<u>\$ 61,284</u>	<u>\$ 4,064</u>	<u>\$ 505,337</u>
<u>Cost</u>					
Balance at January 1, 2018	\$ 124,019	\$ 384,646	\$ 97,007	\$ 9,785	\$ 615,457
Additions	-	368	20,350	3,158	23,876
Disposals	<u> -</u>	<u> (1,104)</u>	<u> (14,629)</u>	<u> (2,492)</u>	<u> (18,225)</u>
Balance at December 31, 2018	<u>\$ 124,019</u>	<u>\$ 383,910</u>	<u>\$ 102,728</u>	<u>\$ 10,451</u>	<u>\$ 621,108</u>
<u>Accumulated depreciation</u>					
Balance at January 1, 2018	\$ -	\$ 68,676	\$ 35,723	\$ 5,721	\$ 110,120
Depreciation expense	-	10,968	24,354	2,080	37,402
Disposals	<u> -</u>	<u> (878)</u>	<u> (14,577)</u>	<u> (2,492)</u>	<u> (17,947)</u>
Balance at December 31, 2018	<u>\$ -</u>	<u>\$ 78,766</u>	<u>\$ 45,500</u>	<u>\$ 5,309</u>	<u>\$ 129,575</u>
Carrying amounts at December 31, 2018	<u>\$ 124,019</u>	<u>\$ 305,144</u>	<u>\$ 57,228</u>	<u>\$ 5,142</u>	<u>\$ 491,533</u>

The Company's property, plant and equipment were depreciated on a straight-line basis over the following estimated useful life:

Buildings	
Office main buildings	35-50 years
Electrical power equipment	5-10 years
Air-conditioning	5-8 years
Extinguishment equipment	5 years
Research and development equipment	3-8 years
Office equipment	3-5 years

14. INTANGIBLE ASSETS

	Patents	Software	Trademark	Total
<u>Cost</u>				
Balance at January 1, 2017	\$ 81,441	\$ 10,563	\$ 4,254	\$ 96,258
Additions	16,170	2,490	157	18,817
Disposals	<u>-</u>	<u>(1,666)</u>	<u>-</u>	<u>(1,666)</u>
Balance at December 31, 2017	<u>\$ 97,611</u>	<u>\$ 11,387</u>	<u>\$ 4,411</u>	<u>\$ 113,409</u>
<u>Accumulated amortization</u>				
Balance at January 1, 2017	\$ 34,717	\$ 4,037	\$ 2,708	\$ 41,462
Amortization expense	7,594	3,200	389	11,183
Disposals	<u>-</u>	<u>(1,666)</u>	<u>-</u>	<u>(1,666)</u>
Balance at December 31, 2017	<u>\$ 42,311</u>	<u>\$ 5,571</u>	<u>\$ 3,097</u>	<u>\$ 50,979</u>
Carrying amounts at December 31, 2017	<u>\$ 55,300</u>	<u>\$ 5,816</u>	<u>\$ 1,314</u>	<u>\$ 62,430</u>
<u>Cost</u>				
Balance at January 1, 2018	\$ 97,611	\$ 11,387	\$ 4,411	\$ 113,409
Additions	15,310	2,617	7	17,934
Disposals	<u>-</u>	<u>(2,309)</u>	<u>-</u>	<u>(2,309)</u>
Balance at December 31, 2018	<u>\$ 112,921</u>	<u>\$ 11,695</u>	<u>\$ 4,418</u>	<u>\$ 129,034</u>
<u>Accumulated amortization</u>				
Balance at January 1, 2018	\$ 42,311	\$ 5,571	\$ 3,097	\$ 50,979
Amortization expense	9,482	3,294	426	13,202
Disposals	<u>-</u>	<u>(2,309)</u>	<u>-</u>	<u>(2,309)</u>
Balance at December 31, 2018	<u>\$ 51,793</u>	<u>\$ 6,556</u>	<u>\$ 3,523</u>	<u>\$ 61,872</u>
Carrying amounts at December 31, 2018	<u>\$ 61,128</u>	<u>\$ 5,139</u>	<u>\$ 895</u>	<u>\$ 67,162</u>

The Company's major products are NeoBit®, NeoFlash®, NeoEE®, NeoFuse® and NeoMTP®, etc. There are 835 patents currently owned or applied in progress for the products mentioned above. According to the requirements of IAS 38, the research and development costs were recognized as research and development expenses, instead of capitalized, in the periods when incurred. The costs of the patents and the trademarks mentioned above were the costs of the relevant fees and professional service expenses for legal right applications.

The above intangible assets with finite useful lives are amortized on a straight-line basis over the following estimated useful life:

Patents	5 years
Software	3 years
Trademark	5 years

15. OTHER ASSETS

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
<u>Current</u>		
Temporary payment	<u>\$ 2,902</u>	<u>\$ 2,023</u>

16. OTHER LIABILITIES

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
<u>Current</u>		
Other payables		
Bonus	\$ 62,917	\$ 43,601
Payable for annual leave	3,343	6,233
Payable for professional service fee	1,056	1,467
Others	<u>26,788</u>	<u>29,626</u>
	<u>\$ 94,104</u>	<u>\$ 80,927</u>
Other liabilities		
Receipt under custody	\$ 1,008	\$ 891
Receipt in advance	550	34,021
Temporary receipt	<u>58</u>	<u>10</u>
	<u>\$ 1,616</u>	<u>\$ 34,922</u>

17. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

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 plans

The defined benefit plan adopted by the Company in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the 6 months before retirement. The Company contributes amounts equal to 2% 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 based on the actuary report of the Company’s defined benefit plans were as follows:

	December 31	
	2018	2017
Present value of funded defined benefit obligation	\$ 28,793	\$ 26,575
Fair value of plan assets	<u>(8,459)</u>	<u>(7,333)</u>
Net defined benefit liability	<u>\$ 20,334</u>	<u>\$ 19,242</u>

Movements in net defined benefit liabilities were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
Balance at January 1, 2017	<u>\$ 25,963</u>	<u>\$ (6,440)</u>	<u>\$ 19,523</u>
Net interest expense (income)	<u>389</u>	<u>(103)</u>	<u>286</u>
Recognized in profit or loss	<u>389</u>	<u>(103)</u>	<u>286</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	39	39
Actuarial (gain) loss			
Changes in demographic assumptions	1,348	-	1,348
Experience adjustments	<u>(1,125)</u>	<u>-</u>	<u>(1,125)</u>
Recognized in other comprehensive loss	<u>223</u>	<u>39</u>	<u>262</u>
Contributions from the employer	<u>-</u>	<u>(829)</u>	<u>(829)</u>
Balance at December 31, 2017	<u>26,575</u>	<u>(7,333)</u>	<u>19,242</u>
Net interest expense (income)	<u>398</u>	<u>(116)</u>	<u>282</u>
Recognized in profit or loss	<u>398</u>	<u>(116)</u>	<u>282</u>

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	\$ -	\$ (170)	\$ (170)
Actuarial (gain) loss			
Changes in demographic assumptions	352	-	352
Changes in financial assumptions	538	-	538
Experience adjustments	<u>930</u>	<u>-</u>	<u>930</u>
Recognized in other comprehensive loss (income)	<u>1,820</u>	<u>(170)</u>	<u>1,650</u>
Contributions from the employer	<u>-</u>	<u>(840)</u>	<u>(840)</u>
Balance at December 31, 2018	<u>\$ 28,793</u>	<u>\$ (8,459)</u>	<u>\$ 20,334</u> (Concluded)

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 plans' debt investments.
- 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	1.375%	1.50%
Expected rate of salary increase	4.00%	4.00%

If possible reasonable changes 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		
0.25% increase	<u>\$ (1,071)</u>	<u>\$ (1,045)</u>
0.25% decrease	<u>\$ 1,121</u>	<u>\$ 1,096</u>
Expected rate of salary increase		
0.25% increase	<u>\$ 1,077</u>	<u>\$ 1,055</u>
0.25% decrease	<u>\$ (1,035)</u>	<u>\$ (1,012)</u>

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

18. EQUITY

a. Ordinary shares

	December 31	
	2018	2017
Numbers of shares authorized (in thousands)	<u>100,000</u>	<u>100,000</u>
Shares authorized	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>
Number of shares issued and fully paid (in thousands)	<u>75,791</u>	<u>75,783</u>
Shares issued	<u>\$ 757,908</u>	<u>\$ 757,823</u>

For the year Ended December 31, 2018, the shares increased due to the employees' exercise of their employee share options.

b. Capital surplus

	December 31	
	2018	2017
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)</u>		
Arising from issuance of ordinary shares	\$ 310,759	\$ 337,596
<u>May be used to offset a deficit only</u>		
Arising from share of changes in capital surplus of associates	41,384	41,375
Arising from issuance of ordinary - exercised/invalid employee share options	2,445	830
<u>May not be used for any purpose</u>		
Arising from employee share options	<u>61,949</u>	<u>47,695</u>
	<u>\$ 416,537</u>	<u>\$ 427,496</u>

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

c. Retained earnings and dividend policy

The Company's Articles of Incorporation state that, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting accumulated losses, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings 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 the distribution of dividends and bonuses to shareholders. For the policies on the distribution of employees' compensation and remuneration of directors after the amendment, refer to "Employees' compensation and remuneration of directors" in Note 21 (e).

The Company shall distribute dividend with considerations of the market situation and development stage, as well as future capital needs, long-term corporate development and the shareholders' cash flow needs. The Company's dividend policy, in principle, shall not be less than 50% of distributable earnings, of which at least 10% will be paid as cash dividend and the remainder will be in the form of stock dividend. The board of directors shall map out the distribution proposal in consideration of future operation and capital expenditure, and present the proposal at the shareholders' meeting for approval.

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

Items referred to under Rule No. 1010012865, Rule No. 1010047490 and Rule No. 1030006415 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to or reversed from a special reserve by the Company.

The appropriations of earnings for 2017 and 2016 which had been approved in the shareholders' meetings on June 14, 2018 and June 13, 2017, respectively, were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	Year Ended December 31		Year Ended December 31	
	2017	2016	2017	2016
Legal reserve	\$ 59,862	\$ 48,561		
Cash dividends	<u>538,736</u>	<u>436,885</u>	\$ 7.109	\$ 5.765
	<u>\$ 598,598</u>	<u>\$ 485,446</u>		

The Company's shareholders also resolved to issue cash dividends from capital surplus of \$29,631 thousand and \$55,700 thousand in the shareholders' meetings on June 14, 2018 and June 13, 2017, respectively.

The appropriations of earnings for 2018 had been proposed by the Company's board of directors on February 26, 2019. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 61,311	
Cash dividends	<u>556,678</u>	\$ 7.50
	<u>\$ 617,989</u>	

Issuance of cash dividends from capital surplus of \$37,112 thousand also had been proposed by the Company's board of directors on February 26, 2019.

The appropriations of earnings for 2018 are subject to the resolution of the shareholders' meeting to be held on June 13, 2019.

d. Other equity items

Unrealized gain/(loss) on financial assets at FVTOCI

	Year Ended December 31, 2018
Balance at January 1 per IAS 39	\$ -
Adjustment on initial application of IFRS 9	<u>(62,992)</u>
Balance at January 1 per IFRS 9	<u>(62,992)</u>
Recognized for the year	
Unrealized gain - equity instruments	<u>1,060</u>
Other comprehensive income recognized for the year	<u>1,060</u>
Balance at December 31	<u>\$ (61,932)</u>

e. Treasury shares

Unit: In Thousands of Shares

Purpose of Buy-Back	Number of Shares at January 1	Increase During the Year	Decrease During the Year	Number of Shares at December 31
<u>2018</u>				
Shares transferred to employees	<u>-</u>	<u>1,567</u>	<u>-</u>	<u>1,567</u>

In September 2018, for shares transferred to employees, the Company's board of directors resolved to buy back 2,500 thousand shares of the Company's ordinary shares from the TPEX market from September 14, 2018 to November 13, 2018 with the price interval ranging from NT\$177.80 to NT\$400 per share. The Company has bought back 1,567 thousand shares with total cost of NT\$404,238 thousand.

Under the Securities and Exchange Act, the Company shall neither pledge treasury shares nor exercise shareholders' rights on these shares, such as rights to dividends and to vote.

19. SHARE-BASED PAYMENT

a. Cash-settled share-based payments of the Company

The Company issued share appreciation rights (“SARs”) to certain employees on January 1, April 1, July 1 and October 1, 2015. As of December 31, 2017, the above-mentioned employee share appreciation rights have been paid to employees according to the embedded value of the share appreciation rights at the time of employee execution.

The Company recorded total expenses of NT\$4,240 thousand in respect of issuance of the SARs for the year ended 2017.

b. Employee share option plan of the Company

Qualified employees of the Company were granted 500 options in February, 2016. Each option entitles the holder to subscribe for one thousand ordinary shares of the Company. The options granted are valid for 10 years and exercisable at certain percentages after the second anniversary from the grant date. The options were granted at an exercise price equal to the closing price of the Company’s ordinary shares listed on the TPEX on the grant date. For any subsequent changes in the Company’s ordinary shares or for any cash dividends issued in excess of the ratio required in the issuance rule, the exercise price is adjusted accordingly.

The information of employee share options was as follows:

	Year Ended December 31			
	2018		2017	
	Number of Options (In Thousands)	Weighted- average Exercise Price (NT\$)	Number of Options (In Thousands)	Weighted- average Exercise Price (NT\$)
Balance at January 1	487	\$ 338.7	500	\$ 344.5
Options exercised	(8)	338.7	-	-
Options forfeited	(9)	338.7	(13)	-
Balance at December 31	<u>470</u>	331.6	<u>487</u>	338.7
Options exercisable, end of period	<u>135</u>	331.6	<u>-</u>	-

Options granted in February 2016 were priced using the Black-Scholes pricing model and the inputs in the model were as follows:

Grant-date share price (NT\$)	\$ 351
Exercise price (NT\$)	\$ 351
Expected volatility	43.24%
Expected life (in years)	6-7 years
Expected dividend yield	-
Risk-free interest rate	0.71-0.75%

Compensation costs recognized were NT\$15,869 thousand and NT\$25,159 thousand for the years ended December 31, 2018 and 2017, respectively.

On December 19, 2018, the board of directors resolved to issue 3,000 units of employee share options that were effectively registered to be granted in January 2, 2019. Each option entitles the holder to subscribe for one thousand ordinary shares of the Company.

20. REVENUE

	Year Ended December 31	
	2018	2017
Royalty revenue	\$ 1,026,710	\$ 987,574
Technical service revenue	<u>449,806</u>	<u>388,184</u>
	<u>\$ 1,476,516</u>	<u>\$ 1,375,758</u>

a. Contact balances

	December 31, 2018
Accounts receivables (Note 11)	<u>\$ 158,335</u>
Contract liabilities	
Technical service revenue	<u>\$ 37,822</u>

Revenue of the reporting period recognized from the beginning contract liabilities in the previous periods is as follows:

	Year Ended December 31 2018
From the beginning contract liabilities	
Technical service revenue	<u>\$ 23,107</u>

b. Partially completed contracts

	Year Ended December 31 2018
Taiwan (Company located)	\$ 880,511
China	267,184
Singapore	128,410
Korea	72,705
United States of America	36,755
Others	<u>90,951</u>
	<u>\$ 1,476,516</u>

21. NET PROFIT FROM CONTINUING OPERATIONS

a. Other income

	Year Ended December 31	
	2018	2017
Interest income		
Bank deposits	\$ 10,663	\$ 9,451
Remuneration of directors received	10,023	9,000
Rental income	3,395	1,694
Dividend income	<u>943</u>	<u>539</u>
	<u>\$ 25,024</u>	<u>\$ 20,684</u>

b. Other gains and losses

	Year Ended December 31	
	2018	2017
Net foreign exchange gain (loss)	\$ 5,615	\$ (10,035)
Gain on disposal of investment	79	6
Loss on disposal of property, plant and equipment	(278)	-
Others	<u>12</u>	<u>697</u>
	<u>\$ 5,428</u>	<u>\$ (9,332)</u>

c. Depreciation and amortization

	Year Ended December 31	
	2018	2017
An analysis of depreciation by function		
Operating expenses	<u>\$ 37,402</u>	<u>\$ 31,383</u>
An analysis of amortization by function		
Selling and marketing expenses	\$ -	\$ -
General and administrative expenses	2,130	1,940
Research and development expenses	<u>11,072</u>	<u>9,243</u>
	<u>\$ 13,202</u>	<u>\$ 11,183</u>

d. Employee benefits expense

	Year Ended December 31	
	2018	2017
Post-employment benefits (see Note 17)		
Defined contribution plans	\$ 15,328	\$ 14,661
Defined benefit plans	<u>282</u>	<u>286</u>
	<u>15,610</u>	<u>14,947</u>
Share-based payments (see Note 19)		
Cash-settled	-	4,240
Equity-settled	<u>15,869</u>	<u>25,159</u>
	<u>15,869</u>	<u>29,399</u>
Other employee benefits	<u>597,535</u>	<u>564,698</u>
	<u>\$ 629,014</u>	<u>\$ 609,044</u>
An analysis of employee benefits expense by function		
Operating expenses	<u>\$ 629,014</u>	<u>\$ 609,044</u>

e. Employees' compensation and remuneration of directors

According to the Articles of Incorporation of the Company, the Company accrued employees' compensation and remuneration of directors at rates of 1-25% and no higher than 2%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors. The employees' compensation and the remuneration of directors for the years ended December 31, 2018 and 2017, which were approved by the Company's board of directors on February 26, 2019 and February 27, 2018, respectively, are as follows:

Accrual rate

	Year Ended December 31	
	2018	2017
Employees' compensation	15%	15%
Remuneration of directors	1.5%	1.5%

Amount

	Year Ended December 31	
	2018	2017
Employees' compensation	<u>\$ 125,538</u>	<u>\$ 121,477</u>
Remuneration of directors	<u>\$ 12,554</u>	<u>\$ 12,148</u>

If there is a change in the amounts after the parent company only financial statements are authorized for issue, the differences are recorded as a change in the accounting estimate.

There is no difference between the actual amounts of employees' compensation and remuneration of directors paid and the amounts recognized in the parent company only financial statements for the years ended December 31, 2017 and 2016.

Information on the employees' compensation and remuneration of 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.

22. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Income tax recognized in profit or loss

The major components of tax expense (income) were as follows:

	<u>Year Ended December 31</u>	
	2018	2017
Current tax		
In respect of the current year	\$ 87,079	\$ 75,067
Adjustments for prior periods	<u>(754)</u>	<u>(102)</u>
	86,325	74,965
Deferred tax		
In respect of the current year	(228)	2,640
Adjustments to deferred tax attributable to changes in tax rates and laws	<u>(372)</u>	<u>-</u>
Income tax expense recognized in profit or loss	<u>\$ 85,725</u>	<u>\$ 77,605</u>

A reconciliation of accounting profit and income tax expense is as follows:

	<u>Year Ended December 31</u>	
	2018	2017
Profit before tax	<u>\$ 698,831</u>	<u>\$ 676,314</u>
Income tax expense calculated at the statutory rate	\$ 139,766	\$ 114,973
Nondeductible expenses in determining taxable income	741	(10,321)
Tax-exempt income	(93,488)	(64,139)
Additional income tax under the Alternative Minimum Tax Act	36,614	34,389
Unrecognized deductible temporary differences and investment credits	3,218	2,805
Adjustments to deferred tax attributable to changes in tax rates and laws	(372)	-
Adjustments for prior years' tax	<u>(754)</u>	<u>(102)</u>
Income tax expense recognized in profit or loss	<u>\$ 85,725</u>	<u>\$ 77,605</u>

In 2017, the applicable corporate income tax rate used by the Company entities in the ROC is 17%. However, the Income Tax Act in the ROC 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 status of 2019 appropriations of earnings is uncertain, the potential income tax consequences of 2018 unappropriated earnings are not reliably determinable.

b. Current tax liabilities

	<u>December 31</u>	
	2018	2017
Current tax liabilities		
Income tax payable	<u>\$ 71,897</u>	<u>\$ 61,476</u>

c. Deferred tax assets

The movements of deferred tax assets and deferred tax liabilities were as follows:

Year ended December 31, 2017

	Opening Balance	Recognized in Profit or Loss	Closing Balance
<u>Deferred tax assets</u>			
Temporary differences	\$ <u>4,748</u>	\$ <u>(2,640)</u>	\$ <u>2,108</u>

Year ended December 31, 2018

	Opening Balance	Recognized in Profit or Loss	Closing Balance
<u>Deferred tax assets</u>			
Temporary differences	\$ <u>2,108</u>	\$ <u>600</u>	\$ <u>2,708</u>

d. Information about tax-exemption

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

<u>Expansion of Construction Project</u>	<u>Tax-exemption Period</u>
Fourth expansion of the manufacturing plant	January 1, 2014-December 31, 2018
Fifth expansion of the manufacturing plant	January 1, 2015-December 31, 2019
Sixth expansion of the manufacturing plant	January 1, 2016-December 31, 2020

e. Income tax assessments

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

23. EARNINGS PER SHARE

Unit: NT\$ Per Share

	<u>Year Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Basic earnings per share	\$ <u>8.13</u>	\$ <u>7.90</u>
Diluted earnings per share	\$ <u>8.07</u>	\$ <u>7.86</u>

The earnings and weighted average number of ordinary shares outstanding used in the computation of earnings per share were as follows:

Net Profit for the Year

	<u>Year Ended December 31</u>	
	2018	2017
Earnings used in the computation of basic earnings per share	\$ 613,106	\$ 598,709
Effect of potentially dilutive ordinary shares:		
Employees' compensation	-	-
Employee share options	<u>-</u>	<u>-</u>
Earnings used in the computation of diluted earnings per share	<u>\$ 613,106</u>	<u>\$ 598,709</u>

Weighted average number of ordinary shares outstanding (in thousand shares):

	<u>Year Ended December 31</u>	
	2018	2017
Weighted average number of ordinary shares used in the computation of basic earnings per share	75,425	75,783
Effect of potentially dilutive ordinary shares:		
Employees' compensation	528	317
Employee share options	<u>-</u>	<u>79</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>75,953</u>	<u>76,179</u>

Since the Company can offer to settle bonus to employees in cash or shares, the Company assumes the entire amount of the bonus would be settled in shares and the resulting potential shares are included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, if the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the shareholders resolve the number of shares to be distributed to employees at their meeting in the following year.

Since the exercise price of the options or warrants issued by the Company exceeded the average market price of the shares during 2018, they are anti-dilutive and excluded from the computation of diluted earnings per share.

24. OPERATING LEASE ARRANGEMENTS

a. The Company as lessee

- 1) The Company leases the sites of its offices and parking lots from the Richtek Technology Corporation, Winsome Development Co., Ltd and the Hsinchu Science Park Bureau with lease terms expiring at various dates from April 2019, December 2019 and December 2020, respectively. The rental payable to Science Park Bureau can be adjusted according to the lease contract, and the lease is renewable upon expiration.

The future minimum lease payments for non-cancellable operating lease commitments are as follows:

	December 31	
	2018	2017
Not later than 1 year	\$ 1,549	\$ 1,064
Later than 1 year and not later than 5 years	<u>550</u>	<u>1,089</u>
	<u>\$ 2,099</u>	<u>\$ 2,153</u>

The lease payments recognized as expenses were as follows:

	Year Ended December 31	
	2018	2017
Minimum lease payment	<u>\$ 1,596</u>	<u>\$ 1,501</u>

b. The Company as lessor

The Company leases out portions of its offices to HeFeChip Corporation Limited and Optigate Inc. under operating lease agreements. The lease terms were agreed upon and detailed in the lease agreements.

The future minimum lease payments receivable on non-cancellable operating leases are as follows:

	December 31	
	2018	2017
Not later than 1 year	<u>\$ 3,363</u>	<u>\$ 1,984</u>

As of December 31, 2018 and 2017, guarantee deposits received under operating lease agreements were both \$530 thousand.

25. CAPITAL MANAGEMENT

The Company manages its capital to ensure that entities in the Company will be able to continue a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. The Company's overall strategy has no significant changes.

The capital structure of the Company consists of issued ordinary shares, capital surplus, retained earnings and other equity.

The Company is not subject to any externally imposed capital requirements.

26. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments that are not measured at fair value

The management believes the carrying amounts of financial assets and financial liabilities not carried at fair value approximate their fair values or their fair values cannot be reliably measured.

b. Fair value of financial instruments that are measured at fair value on a recurring basis

1) Fair value hierarchy

December 31, 2018

	Level 1	Level 2	Level 3	Total
Financial assets at FVTOCI				
Investments in equity instruments at FVTOCI				
Unlisted shares	\$ _____ -	\$ 19,180	\$ _____ -	\$ 19,180

There were no transfers between Levels 1 and 2 in the current and prior periods.

2) Valuation techniques and inputs applied for Level 2 fair value measurement

<u>Financial Instruments</u>	<u>Valuation Techniques and Inputs</u>
Unlisted shares - ROC	Estimate the value of the target by estimating the assets and liabilities items or use the observable stocks price company comparing items of balance sheet or income statement, calculate the implied value multiplier for the price and evaluate the value of the target at balance sheet dates.

c. Categories of financial instruments

	<u>December 31</u>	
	2018	2017
<u>Financial assets</u>		
Loans and receivables (Note 1)	\$ -	\$ 1,782,583
Financial asset at amortized cost (Note 2)	1,497,322	-
Investment in equity instrument at FVTOCI	19,180	-
<u>Financial liabilities</u>		
Amortized cost (Note 3)	24,171	25,209

Note 1: The balances included loans and receivables measured at amortized cost, which comprise cash, accounts receivable, other receivables, other receivables - related parties, other current assets and investments in debt instrument without active market.

Note 2: The balances include financial assets measured at amortized cost, which comprise cash, accounts receivables, other receivables, other receivables-related parties and other current assets.

Note 3: The balances included financial liabilities measured at amortized cost, which comprise other payables and payables on equipment.

d. Financial risk management objectives and policies

The Company's major financial instruments included equity investments, accounts receivable and other payables. The Company's corporate financial management function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The Company's main financial plans are reviewed by the board of directors in accordance with relevant regulations and internal control system.

1) Market risk

The Company's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (see (a) below) and interest rates (see (b) below).

There had been no change in the Company's exposure to market risks or the manner in which these risks were managed and measured.

a) Foreign currency risk

The Company's operating activities are partially denominated in foreign currencies and apply the natural hedge. The purpose of the Company's management of the foreign currency risk is to hedge the risk instead of making a profit.

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

Sensitivity analysis

The Company is mainly exposed to the exchange rate fluctuation of USD, CNY and JPY.

The sensitivity analysis included only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive number below indicates an increase in pre-tax profit associated with the New Taiwan dollar weakening 5% against the relevant currency. For a 5% strengthening of the New Taiwan dollar against the relevant currency, there would be an equal and opposite impact on pre-tax profit and the balances below would be negative. The sensitivity analysis included cash, accounts receivable, other receivables, payables on equipment and other payables.

	USD Impact		CNY Impact		JPY Impact	
	Year Ended December 31		Year Ended December 31		Year Ended December 31	
	2018	2017	2018	2017	2018	2017
Profit or loss	\$ 10,954	\$ 5,605	\$ 1,131	\$ 1,144	\$ 15	\$ 37

b) Interest rate risk

The Company is exposed to interest rate risk arising from financial assets both at fixed and floating interest rates.

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

	December 31	
	2018	2017
Fair value interest rate risk		
Financial assets	\$ 843,230	\$ 1,220,216
Cash flow interest rate risk		
Financial assets	492,360	477,054

Sensitivity analysis

The sensitivity analyses below are determined based on the Company's exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate assets, the analysis was prepared assuming the amount of the asset outstanding at the end of the reporting period was outstanding for the whole year.

If the market interest rates had increased/decreased by 0.1% and all other variables were held constant, the Company's pre-tax profit for the years ended December 31, 2018 and 2017 would increase/decrease by \$492 thousand and \$477 thousand, respectively, mainly due to the Company's exposure to floating interest rate assets.

2) Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations and result in financial loss to the Company. As at the end of the reporting period, the Company's maximum exposure to credit risk which will cause a financial loss to the Company due to failure of counterparties to discharge an obligation mainly arise from the carrying amount of the respective recognized financial assets as stated in the parent company only balance sheets.

In order to minimize credit risk, the Company has made credit and receivable management regulations 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 allowances are made for irrecoverable amounts. In this regard, management believes the Company's credit risk was significantly reduced.

The credit risk on liquid funds was limited because the counterparties are banks with good credit.

Apart from the customers whose balances exceeded 5% of the accounts receivable, the Company did not have significant credit risk exposure to any single counterparty or any Company of counterparties having similar characteristics.

The customers whose balances exceeded 5% of the accounts receivable are creditworthy counterparties. Therefore, the credit risk is limited.

3) Liquidity risk

The Company manages liquidity risk by monitoring and maintaining a level of cash deemed adequate to finance the Company's operations and mitigate the effects of fluctuations in cash flows.

Liquidity and interest risk rate tables

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables had been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Company can be required to pay. The tables included both interest and principal cash flows.

December 31, 2018

	On Demand or Less than 1 Month	1-3 Months	3 Months to 1 Year	Total
<u>Non-derivative financial liabilities</u>				
Non-interest bearing	<u>\$ 8,106</u>	<u>\$ 15,759</u>	<u>\$ 836</u>	<u>\$ 24,701</u>

December 31, 2017

	On Demand or Less than 1 Month	1-3 Months	3 Months to 1 Year	Total
<u>Non-derivative financial liabilities</u>				
Non-interest bearing	<u>\$ 9,015</u>	<u>\$ 15,888</u>	<u>\$ 836</u>	<u>\$ 25,739</u>

27. TRANSACTIONS WITH RELATED PARTIES

The transactions between the Company and its related parties, other than those disclosed in other notes, are summarized as follows:

- a. Related party name and category

<u>Related Party Name</u>	<u>Related Party Category</u>
Lotus Glade Investment Inc.	Subsidiaries
iMQ Technology Inc.	Associates
Powerchip Technology Corporation	Substantive related parties
Powerchip Semiconductor Manufacturing Corp.	Substantive related parties
PowerFlash Technology Corp.	Substantive related parties
Syntronix Corporation	Substantive related parties
HeFeChip Corporation Limited	Substantive related parties
Optigate Inc.	Substantive related parties

b. Operating revenue

Line Items	Related Party Category	Year Ended December 31	
		2018	2017
Sales	Substantive related parties	\$ 44,707	\$ 76,443
	Associates	<u>1,802</u>	<u>1,823</u>
		<u>\$ 46,509</u>	<u>\$ 78,266</u>

The prices that the Company transferred and granted the professional technology to related parties were decided by the two sides. The payment term was open account 30 days.

c. Operating expense

Line Items	Related Party Category	Year Ended December 31	
		2018	2017
Other operating expense	Substantive related parties	<u>\$ -</u>	<u>\$ 35</u>

d. Other income

Line Items	Related Party Category	Year Ended December 31	
		2018	2017
Remuneration of directors received	Substantive related parties	\$ 10,000	\$ 9,000
	Powerchip Technology Corporation		
	Others	<u>23</u>	<u>-</u>
		<u>\$ 10,023</u>	<u>\$ 9,000</u>
Rental income	Substantive related parties		
	HeFeChip Corporation Limited	\$ 3,335	\$ 1,390
	PowerFlash Technology Corp.	-	284
	Others	<u>10</u>	<u>20</u>
		<u>\$ 3,345</u>	<u>\$ 1,694</u>
Dividend income	Substantive related parties		
	Powerchip Technology Corporation	<u>\$ -</u>	<u>\$ 539</u>

The prices and payment terms of the lease agreements between the Company and related parties were decided by the two sides.

e. Receivables from related parties (excluding loans to related parties)

Line Items	Related Party Category	December 31	
		2018	2017
Other receivables - related parties	Substantive related parties		
	HeFeChip Corporation Limited	<u>\$ 251</u>	<u>\$ 577</u>

f. Contract Liabilities

Related Party Category	December 31, 2018
Associates	\$ 1,312
Substantive related parties	<u>452</u>
	<u>\$ 1,764</u>

g. Other current liabilities

Line Items	Related Party Category	December 31	
		2018	2017
Receipt in advance	Substantive related parties		
	HeFeChip Corporation Limited	\$ 550	\$ 550
	Associates	<u>-</u>	<u>457</u>
		<u>\$ 550</u>	<u>\$ 1,007</u>
Temporary receipt	Substantive related parties		
	Optigate Inc.	<u>\$ -</u>	<u>\$ 10</u>

h. Guarantee deposits received

Line Items	Related Party Category	December 31	
		2018	2017
Guarantee deposits received	Substantive related parties		
	HeFeChip Corporation Limited	\$ 520	\$ 520
	Others	<u>-</u>	<u>10</u>
		<u>\$ 520</u>	<u>\$ 530</u>

i. Compensation of key management personnel

The compensation to directors and the key management personnel were as follows:

	Year Ended December 31	
	2018	2017
Short-term employee benefits	\$ 85,100	\$ 79,284
Post-employment benefits	1,002	989
Share-based payment transactions	<u>4,696</u>	<u>7,358</u>
	<u>\$ 90,798</u>	<u>\$ 87,631</u>

28. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets of the Company were provided as deposits for the tariff of imported raw materials:

	December 31	
	2018	2017
Pledged time deposits (classified as financial assets a amortized cost)	\$ 112	\$ -
Pledged time deposits (classified as investments in debt instrument without active market)	<u>-</u>	<u>111</u>
	<u>\$ 112</u>	<u>\$ 111</u>

29. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

December 31, 2018

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 7,158	30.715	\$ 219,843
CNY	5,057	4.472	22,614
JPY	1,087	0.2782	<u>302</u>
			<u>\$ 242,759</u>

Financial liabilities

Monetary items			
USD	25	30.715	<u>\$ 754</u>

December 31, 2017

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 3,778	29.760	\$ 112,435
CNY	5,014	4.565	22,889
JPY	2,821	0.2642	<u>745</u>
			<u>\$ 136,069</u>

(Continued)

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial liabilities</u>			
Monetary items			
USD	\$ 12	29.760	\$ 344
EUR	4	35.570	<u>141</u>
			<u>\$ 485</u>
			(Concluded)

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

	Year Ended December 31			
	2018		2017	
	Foreign Currencies	Exchange Rate	Net Foreign Exchange Gains (Losses)	Exchange Rate
USD	30.715 (USD:NTD)	<u>\$ 2,070</u>	29.760 (USD:NTD)	<u>\$ (1,996)</u>

30. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

- 1) Marketable securities held (excluding investment in subsidiaries, associates and jointly controlled entities). (Table 1)
- 2) Information on investees. (Table 2)

b. Information on investments in mainland China: (None)

EMEMORY TECHNOLOGY INC.

MARKETABLE SECURITIES HELD

DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Holding Company Name	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statement Account	December 31, 2018				Note
				Shares (In Thousands)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
eMemory Technology Inc.	<u>Shares</u> Powerchip Technology Corporation	-	Financial assets at fair value through other comprehensive income - noncurrent	583	\$ 12,260	-	\$ 12,260	Note 2
	Syntronix Corporation	-	Financial assets at fair value through other comprehensive income - noncurrent	1,100	6,920	2.81	6,920	Note 2
	PowerFlash Technology Corp.	The Company is its director.	Financial assets at fair value through other comprehensive income - noncurrent	40	-	3.99	-	Note 2

Note 1: Marketable securities mentioned in the table include shares, bonds, beneficiary certificates and the derivative securities from aforementioned items, which is under the definition of IFRS 9.

Note 2: The market value was based on the fair value as of December 31, 2018.

Note 3: As of December 31, 2018, the above marketable securities had not been pledged or mortgaged.

EMEMORY TECHNOLOGY INC.

INFORMATION ON INVESTEEES

FOR THE YEAR ENDED DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2018			Net Income (Loss) of the Investee	Share of Profits (Loss)	Note
				December 31, 2018	December 31, 2017	Shares (In Thousands)	Percentage of Ownership (%)	Carrying Amount			
eMemory Technology Inc.	iMQ Technology Inc.	Hsinchu City	Electronic Parts and Components Manufacturing	\$ 27,900	\$ 27,900	2,057	4.25	\$ 6,046	\$(102,503)	\$ (4,356)	Investment accounted for using equity method

THE CONTENTS OF STATEMENTS OF MAJOR ACCOUNTING ITEMS

ITEM	STATEMENT INDEX
MAJOR ACCOUNTING ITEMS IN ASSETS, LIABILITIES AND EQUITY	
STATEMENT OF CASH	1
STATEMENT OF ACCOUNTS RECEIVABLE	2
STATEMENT OF PREPAYMENTS	3
STATEMENT OF OTHER CURRENT ASSETS	Note 15
STATEMENT OF CHANGES IN FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - NONCURRENT	4
STATEMENT OF FINANCIAL ASSETS AT AMORTIZED COST – NONCURRENT	Note 8
STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD	5
STATEMENT OF CHANGES IN PROPERTY, PLANT AND EQUIPMENT	Note 13
STATEMENT OF CHANGES IN ACCUMULATED DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT	Note 13
STATEMENT OF CHANGES IN INTANGIBLE ASSETS	Note 14
STATEMENT OF DEFERRED TAX ASSETS	Note 22
STATEMENT OF OTHER PAYABLES	Note 16
STATEMENT OF OTHER CURRENT LIABILITIES	Note 16
MAJOR ACCOUNTING ITEMS IN PROFIT OR LOSS	
STATEMENT OF NET REVENUE	Note 20
STATEMENT OF OPERATING EXPENSES	6
STATEMENT OF OTHER GAINS AND LOSSES	Note 21
SUMMARY OF EMPLOYEE BENEFITS, DEPRECIATION AND AMORTIZATION EXPENSES BY FUNCTION	7

EEMORY TECHNOLOGY INC.**STATEMENT OF CASH****DECEMBER 31, 2018****(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Item	Description	Annual Interest Rate (%)	Amount
Cash in banks			
Time deposits	Expired by the end of December, 2019.	0.13-1.065	\$ 1,171,223
Current accounts			56,420
Foreign currency time deposit	Including RMB\$5,000 thousand @4.472 and US\$500 thousand @30.715, expired by the end of March, 2019.	2.95-3.55	37,717
Foreign currency accounts	Including US\$1,174 thousand @30.715, RMB\$57 thousand @4.472 and JPY1,087 thousand @0.2782.		36,618
Cash on hand			<u>25</u>
			<u>\$ 1,302,003</u>

EMEMORY TECHNOLOGY INC.

STATEMENT OF ACCOUNTS RECEIVABLE

DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars)

Client Name	Amount
Client A	\$ 93,305
Client B	13,556
Others (Note)	<u>61,563</u>
	168,424
Less: Allowance for impairment loss	<u>(10,089)</u>
	<u>\$ 158,335</u>

Note: The amount of individual client in others does not exceed 5% of the account balance.

EMEMORY TECHNOLOGY INC.

STATEMENT OF PREPAYMENTS

DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars)

Item	Amount
Prepayment for software	\$ 12,559
Prepayment for annual fee on the patents	4,680
Prepayment for software maintenance	1,107
Others (Note)	<u>1,543</u>
	<u>\$ 19,889</u>

Note: The amount of each item in others does not exceed 5% of the account balance.

EMEMORY TECHNOLOGY INC.

STATEMENT OF CHANGES IN FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - NONCURRENT

FOR THE YEAR ENDED DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Name of Financial Assets	Balance, January 1, 2018		Additions		Changes in Fair Value	Balance, December 31, 2018	
	Shares (In Thousands)	Amount	Shares (In Thousands)	Amount		Shares (In Thousands)	Amount
Unlisted Company							
Powerchip Technology Corporation	555	\$ 11,190	28	\$ -	\$ 1,070	583	\$ 12,260
Syntronix Corporation	1,100	6,930	-	-	(10)	1,100	6,920
PowerFlash Technology Corp.	40	-	-	-	-	40	-
		<u>\$ 18,120</u>		<u>\$ -</u>	<u>\$ 1,060</u>		<u>\$ 19,180</u>

Note 1: Above financial assets were not pledged as security.

Note 2: The number of shares of Powerchip Technology Corporation increased this year due to distribution of stock dividends.

EMEMORY TECHNOLOGY INC.

STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD
FOR THE YEAR ENDED DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investees	Balance, January 1, 2018			Investment Gain (Loss) Recognized by Using Equity Method	Capital Surplus Recognized by Using Equity Method	Balance, December 31, 2018			Net Assets Value	Remarks
	Shares (In Thousands)	%	Amount			Shares (In Thousands)	%	Amount		
iMQ Technology Inc.	2,057	4.25	\$ 10,393	\$ (4,356)	\$ 9	2,057	4.25	\$ 6,046	\$ 6,046	Note 1

Note 1: The net value was based on audited financial statements of the same period.

Note 2: Above investments accounted for using equity method were not pledged as security.

EMEMORY TECHNOLOGY INC.**STATEMENT OF OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018
(In thousands of New Taiwan Dollars)**

Item	Selling and Marketing Expense	General and Administrative Expense	Research and Development Expense
Payroll and related expense	\$ 93,897	\$ 83,008	\$ 358,291
Travel expenses	7,665	1,450	1,138
Depreciation	379	11,195	25,828
Remuneration of directors and transportation allowance	-	31,645	-
Research and experiment expense	-	-	55,283
Others (Note)	<u>18,737</u>	<u>42,312</u>	<u>64,935</u>
	<u>\$ 120,678</u>	<u>\$ 169,610</u>	<u>\$ 505,475</u>

Note: The amount of each item in others does not exceed 5% of the account balance.

EMEMORY TECHNOLOGY INC.

SUMMARY OF EMPLOYEE BENEFITS, DEPRECIATION AND AMORTIZATION EXPENSES BY FUNCTION
 FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
 (In thousands of New Taiwan Dollars)

	Year Ended December 31, 2018			Year Ended December 31, 2017		
	Classified as Cost of Revenue	Classified as Operating Expenses	Total	Classified as Cost of Revenue	Classified as Operating Expenses	Total
Employee benefits expenses						
Payroll and related expense	\$ -	\$ 535,196	\$ 535,196	\$ -	\$ 518,766	\$ 518,766
Insurance	-	28,354	28,354	-	27,441	27,441
Pension	-	15,610	15,610	-	14,947	14,947
Remuneration of directors	-	31,645	31,645	-	29,964	29,964
Others	-	18,209	18,209	-	17,926	17,926
	<u>\$ -</u>	<u>\$ 629,014</u>	<u>\$ 629,014</u>	<u>\$ -</u>	<u>\$ 609,044</u>	<u>\$ 609,044</u>
Depreciation	<u>\$ -</u>	<u>\$ 37,402</u>	<u>\$ 37,402</u>	<u>\$ -</u>	<u>\$ 31,383</u>	<u>\$ 31,383</u>
Amortization	<u>\$ -</u>	<u>\$ 13,202</u>	<u>\$ 13,202</u>	<u>\$ -</u>	<u>\$ 11,183</u>	<u>\$ 11,183</u>

Note: For the years ended December 31, 2018 and 2017, the monthly numbers of employees when added up reached 3,023 and 2,887, respectively, including 91 and 84 directors who did not serve concurrently as employees. As of December 31, 2018 and 2017, the numbers of employees were 257 and 244, respectively, including 8 and 7 directors who did not serve concurrently as employees.