

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)  
**NANYA TECHNOLOGY CORPORATION AND  
SUBSIDIARIES**

**Consolidated Financial Statements**

**With Independent Auditors' Report  
For the Years Ended December 31, 2018 and 2017**

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The independent auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' report and consolidated financial statements, the Chinese version shall prevail.

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## Representation Letter

The entities that are required to be included in the combined financial statements of Nanya Technology Corporation as of and for the year ended December 31, 2018 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated and Separate Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Nanya Technology Corporation and Subsidiaries do not prepare a separate set of combined financial statements.

Company name: Nanya Technology Corporation  
Chairman: Chia-Chau Wu  
Date: February 27, 2019



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KPMG

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## Independent Auditors' Report

To the Board of Directors of Nanya Technology Corporation:

### Opinion

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

In our opinion, based on our audits and the report of another auditor (please refer to Other Matter paragraph), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards (“IFRSs”), International Accounting Standards (“IASs”), Interpretations developed by the International Financial Reporting Interpretations Committee (“IFRIC”) or the former Standing Interpretations Committee (“SIC”) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

### Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and the 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 Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China (“the Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. Based on our audits and the report of another auditor, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

### Other Matter

We did not audit the financial statements of Formosa Advanced Technologies Co., Ltd., an investment in other accounted for using the equity method of the Group. The financial statements were audited by another auditor, whose audit report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Formosa Advanced Technologies Co., Ltd., is based solely on the audit report of another auditor. The aforementioned investment accounted for using the equity method constituted 1.65% of the consolidated total assets as of December 31, 2018, and the share of profit of associates accounted for using the equity method constituted 0.12% of the consolidated total profit before tax for the period from July 25 to December 31, 2018.

Nanya Technology Corporation has prepared its parent-company-only financial statements as of and for the years ended December 31, 2018 and 2017, on which we have issued an unmodified opinion.

## Key Audit Matters

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

### 1. Revenue recognition

Please refer to Notes 4(o) and 6(r) of the consolidated financial statements for the details of on accounting policy of revenue recognition and related disclosures, respectively.

Revenue recognition is one of the key audit matters for the user of financial statements and the competent authority. The Group provides a number of different sales terms to customers. Since 2018, the Group initially adopted IFRS 15 to determine its new accounting judgments and details for disclosures based on the accounting applications and policies of the new standards. Therefore, revenue recognition and the proper cut-off of revenue under the new standards have been identified as two of the key audit matters in the consolidated financial statements.

The principal audit procedures performed to address the aforementioned key audit matters include analyzing the business operation and industry peculiarities, evaluating the appropriateness of accounting policies, testing the related manual controls in the sales and payment collection cycle, checking and reconciling the information from the sales system to the general ledger, and vouching the original documents during a selected period of time before and after the balance sheet date to evaluate the completeness and accuracy of the information used for revenue recognition and disclosures of the consolidated financial statements, as well as determining whether the revenue is recorded in the appropriate period.

### 2. Valuation of inventories

Please refer to Notes 4(h), 5, and 6(e) for details on accounting policy, judgments, and major sources of estimation uncertainty and disclosure information about inventory valuation, respectively.

The Group recognizes a loss from the devaluation of inventories on a quarterly basis based on the lower of cost or net realizable value method. The international market price of DRAM has significantly affected the net realizable value of inventories. Therefore, the evaluation of inventory has been identified as a key audit matter in the consolidated financial statements.

The principal audit procedures performed to address the aforementioned key audit matter included understanding the basis adopted by the management in the estimate of net realizable value, and sampling to test the reasonableness of the net realizable value.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs, IASs, IFRIC, SIC endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue 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 consolidated financial statements.

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

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

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

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

KPMG

Taipei, Taiwan (Republic of China)  
February 27, 2019

#### **Notes to Readers**

The accompanying consolidated financial statements are intended only to present the consolidated statement of financial position, financial performance and its cash flows in accordance with the 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 consolidated financial statements are those generally accepted and applied in the Republic of China.

The independent auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' report and consolidated financial statements, the Chinese version shall prevail.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)  
**Nanya Technology Corporation and Subsidiaries**  
**Consolidated Balance Sheets**  
**December 31, 2018 and 2017**  
**(Expressed in Thousands of New Taiwan Dollars)**

	December 31, 2018		December 31, 2017			December 31, 2018		December 31, 2017	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>Assets</b>									
<b>Current assets:</b>									
1100 Cash and cash equivalents (Note 6(a))	\$ 57,384,006	31	33,768,677	21	2120	-	-	2,238,441	1
1170 Notes and accounts receivable, net (Notes 6(c)(i))	9,763,741	5	8,525,608	6	2170	4,247,638	3	3,072,987	2
1200 Other receivables (Notes 6(d)(i))	1,313,111	1	11,601,416	8	2180	332,064	-	299,746	-
1310 Inventories (Note 6(c))	12,167,737	7	6,888,530	5	2200	8,786,790	5	6,297,730	4
1410 Prepayments	1,758,316	1	1,622,096	1	2220	938,944	1	1,065,854	1
<b>Total current assets</b>	<b>82,386,911</b>	<b>45</b>	<b>62,406,327</b>	<b>41</b>	<b>2230</b>	<b>2,456,338</b>	<b>1</b>	<b>1,726,392</b>	<b>1</b>
<b>Non-current assets:</b>									
1550 Investments accounted for using equity method (Notes 6(f) and 7)	3,006,603	2	-	-	2399	1,568	-	1,954	-
1600 Property, plant and equipment (Notes 6(h) and 7)	95,558,992	52	86,241,880	57		16,763,342	10	14,703,104	9
1780 Intangible assets	45,881	-	136,550	-		-	-	3,286,711	3
1840 Deferred tax assets (Note 6(m))	867,311	-	922,559	1	2530	625	-	63,699	-
1935 Long-term lease payments receivable (Note 6(i))	875,900	1	1,043,501	1	2570	537,303	-	525,797	-
1990 Other non-current assets (Note 8)	44,215	-	28,485	-	2640	377,245	-	84,803	-
<b>Total non-current assets</b>	<b>100,198,902</b>	<b>55</b>	<b>88,372,975</b>	<b>59</b>	<b>2670</b>	<b>915,173</b>	<b>-</b>	<b>3,961,010</b>	<b>3</b>
						<b>17,678,515</b>	<b>10</b>	<b>18,664,114</b>	<b>12</b>
<b>Total assets</b>	<b>\$ 182,585,813</b>	<b>100</b>	<b>150,779,302</b>	<b>100</b>					
<b>Liabilities and Equity</b>									
<b>Current liabilities:</b>									
Current financial liabilities at fair value through profit or loss (Notes 6(b)(k))									
Accounts payable									
Accounts payable to related parties (Note 7)									
Other payables									
Other payables to related parties (Note 7)									
Current tax liabilities									
Other current liabilities									
<b>Total current liabilities</b>									
<b>Non-current liabilities:</b>									
Bonds payable (Note 6(k))									
Deferred tax liabilities (Note 6(m))									
Net defined benefit liability, non-current (Note 6(m))									
Other non-current liabilities									
<b>Total non-current liabilities</b>									
<b>Total liabilities</b>									
<b>Equity (Note 6(o)):</b>									
Ordinary share	3110				3110	31,032,389	17	29,639,382	20
Certificate of entitlement to new shares from convertible bond	3130				3130	-	-	223,958	-
Advance receipts for share capital	3140				3140	6,488	-	-	-
Capital surplus	3200				3200	33,557,005	18	27,277,191	18
Legal reserve	3310				3310	9,192,249	5	5,164,057	3
Special reserve	3320				3320	39,163	-	-	-
Unappropriated retained earnings	3350				3350	94,136,513	52	69,734,440	47
Other equity interest	3400				3400	(273,834)	-	(39,163)	-
Treasury shares	3500				3500	(2,782,675)	(2)	-	-
<b>Total equity attributable to owners of parent</b>						<b>164,907,298</b>	<b>90</b>	<b>131,999,865</b>	<b>88</b>
Non-controlling interests	36xx				36xx	-	-	115,323	-
<b>Total equity</b>						<b>164,907,298</b>	<b>90</b>	<b>132,115,188</b>	<b>88</b>
<b>Total liabilities and equity</b>						<b>\$ 182,585,813</b>	<b>100</b>	<b>150,779,302</b>	<b>100</b>

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)  
**Nanya Technology Corporation and Subsidiaries**  
**Consolidated Statements of Comprehensive Income**  
**For the years ended December 31, 2018 and 2017**  
(Expressed in Thousands of New Taiwan Dollars, Except Earnings Per Share)

		<u>2018</u>		<u>2017</u>	
		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
4000	Operating revenue (Notes 6(r)(s) and 7)	\$ 84,721,804	100	54,918,224	100
5000	Operating costs (Notes 6(e)(m)(p)(t) and 7)	<u>38,105,801</u>	<u>45</u>	<u>30,274,077</u>	<u>55</u>
	Gross profit from operations	<u>46,616,003</u>	<u>55</u>	<u>24,644,147</u>	<u>45</u>
	Operating expenses (Notes 6(m)(p)(t) and 7):				
6100	Selling expenses	849,649	1	782,434	1
6200	Administrative expenses	1,523,573	2	1,397,357	3
6300	Research and development expenses	<u>4,887,311</u>	<u>6</u>	<u>3,673,056</u>	<u>7</u>
	Total operating expenses	<u>7,260,533</u>	<u>9</u>	<u>5,852,847</u>	<u>11</u>
	Net operating income	<u>39,355,470</u>	<u>46</u>	<u>18,791,300</u>	<u>34</u>
	Non-operating income and expenses (Notes 6(g)(i)(k)(l)(u) and 7):				
7010	Other income	1,030,384	1	393,071	1
7020	Other gains and losses, net	1,152,527	2	23,105,821	42
7050	Finance costs	(5,744)	-	(459,661)	(1)
7060	Share of profit of associates accounted for using equity method, net	<u>51,700</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Total non-operating income and expenses	<u>2,228,867</u>	<u>3</u>	<u>23,039,231</u>	<u>42</u>
7900	Profit before tax	41,584,337	49	41,830,531	76
7950	Tax expense (Note 6(n))	<u>2,223,487</u>	<u>3</u>	<u>1,535,907</u>	<u>3</u>
	Profit	<u>39,360,850</u>	<u>46</u>	<u>40,294,624</u>	<u>73</u>
8300	Other comprehensive income (Notes 6(m)(n)(o)):				
8310	Components of other comprehensive income that will not be reclassified to profit or loss				
8311	Remeasurements of the net defined benefit	(18,096)	-	(83,545)	-
8320	Share of other comprehensive income of associates accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss	(95,101)	-	-	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	<u>6,190</u>	<u>-</u>	<u>14,203</u>	<u>-</u>
	Components of other comprehensive income that will not be reclassified to profit or loss	<u>(107,007)</u>	<u>-</u>	<u>(69,342)</u>	<u>-</u>
8360	Other components of other comprehensive income that will be reclassified to profit or loss				
8361	Exchange differences on translation of foreign financial statements	(140,573)	-	(22,317)	-
8362	Unrealized losses on valuation of available-for-sale financial assets	-	-	(9,408,293)	(17)
8399	Income tax related to components of other comprehensive income that will be reclassified to profit or loss	<u>-</u>	<u>-</u>	<u>1,602,346</u>	<u>3</u>
	Components of other comprehensive income that will be reclassified to profit or loss	<u>(140,573)</u>	<u>-</u>	<u>(7,828,264)</u>	<u>(14)</u>
8300	Other comprehensive income, net	<u>(247,580)</u>	<u>-</u>	<u>(7,897,606)</u>	<u>(14)</u>
8500	Comprehensive income	<u>\$ 39,113,270</u>	<u>46</u>	<u>32,397,018</u>	<u>59</u>
	Profit, attributable to:				
8610	Profit, attributable to owners of parent	\$ 39,361,625	46	40,281,927	73
8620	(Loss) profit, attributable to non-controlling interests	<u>(775)</u>	<u>-</u>	<u>12,697</u>	<u>-</u>
	Comprehensive income attributable to:	<u>\$ 39,360,850</u>	<u>46</u>	<u>40,294,624</u>	<u>73</u>
8710	Comprehensive income, attributable to owners of parent	\$ 39,114,045	46	32,384,321	59
8720	Comprehensive (loss) income, attributable to non-controlling interests	<u>(775)</u>	<u>-</u>	<u>12,697</u>	<u>-</u>
	Comprehensive income attributable to:	<u>\$ 39,113,270</u>	<u>46</u>	<u>32,397,018</u>	<u>59</u>
	Earnings per share (Note 6(q))				
9750	Basic earnings per share	<u>\$ 12.80</u>		<u>14.36</u>	
9850	Diluted earnings per share	<u>\$ 12.38</u>		<u>13.92</u>	

See accompanying notes to consolidated financial statements.



(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)  
**Nanya Technology Corporation and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**For the years ended December 31, 2018 and 2017**  
**(Expressed in Thousands of New Taiwan Dollars)**

	2018	2017
<b>Cash flows from (used in) operating activities:</b>		
<b>Profit before tax</b>	\$ 41,584,337	41,830,531
<b>Adjustments:</b>		
Adjustments to reconcile profit (loss):		
Depreciation expense	11,983,266	8,429,032
Amortization expense	97,298	141,094
Net loss on financial liabilities at fair value through profit or loss	281,107	7,981,043
Interest expense	5,744	459,661
Interest income	(1,030,384)	(390,855)
Dividend income	-	(2,216)
Share-based payments	717,656	459,573
Amortization costs of issuing bonds	-	5,739
Share of profit of associates accounted for using equity method	(51,700)	-
Gain on disposal of property, plant and equipment	(16,859)	(3,089)
Gain on disposal of financial assets in available-for-sale	-	(32,093,172)
Gain on disposal of lease payable	-	(63,542)
Gain on disposal of a subsidiary	(497)	-
(Reversal of impairment loss) impairment loss on non-financial assets	(109,745)	488,988
Unrealized foreign exchange loss (gain)	79,509	(371,365)
<b>Total adjustments to reconcile profit (loss)</b>	<u>11,955,395</u>	<u>(14,959,109)</u>
<b>Changes in operating assets and liabilities:</b>		
Notes and accounts receivable	(1,294,628)	(2,805,016)
Other receivables	(348,559)	1,044,604
Inventories	(5,416,113)	(2,039,038)
Other current assets	(139,380)	(63,313)
Financial liabilities held for trading	(523,136)	-
Accounts payable (including related parties)	728,155	(2,212,483)
Other payables (including related parties)	2,432,313	4,119,274
Other current liabilities	(386)	(231,289)
Net defined benefit liability	(6,590)	(11,261)
Other non-current liabilities	(22,226)	34,135
<b>Total changes in operating assets and liabilities</b>	<u>(4,590,550)</u>	<u>(2,164,387)</u>
Cash inflow generated from operations	48,949,182	24,707,035
Interest received	782,134	215,739
Dividends received	-	2,216
Interest paid	(691)	(327,035)
Income taxes paid	(1,486,623)	(1,906,101)
<b>Net cash flows from operating activities</b>	<u>48,244,002</u>	<u>22,691,854</u>
<b>Cash flows from (used in) investing activities:</b>		
Acquisition of available-for-sale financial assets	-	(1,900,000)
Proceeds from disposal of available-for-sale financial assets	-	56,919,607
Acquisition of investments accounted for using equity method	(3,049,999)	-
Proceeds from disposal of a subsidiary	(85,937)	-
Acquisition of property, plant and equipment	(20,425,865)	(29,394,879)
Proceeds from disposal of property, plant and equipment	25,743	3,130
Increase in refundable deposits	(13,073)	(92)
Decrease in other receivables	10,616,574	-
Acquisition of intangible assets	-	(117)
Decrease in lease and installment receivables	429,330	429,330
(Increase) decrease in other non-current assets	(10,060)	361,688
<b>Net cash flows (used in) from investing activities</b>	<u>(12,513,287)</u>	<u>26,418,667</u>
<b>Cash flows from (used in) financing activities:</b>		
Proceeds from issuing convertible bonds	-	15,604,577
Repayments of long-term debt	-	(23,000,000)
Increase in guarantee deposits received	314,765	12,976
Decrease in other payables to related parties	(791)	(12,733,856)
Decrease in lease payable	-	(4,138)
Cash dividends paid	(10,879,288)	(4,121,817)
Exercise of employee share options	1,500,528	-
Payments to acquire treasury shares	(2,782,675)	-
Change in non-controlling interests	-	280
<b>Net cash flows used in financing activities</b>	<u>(11,847,461)</u>	<u>(24,241,978)</u>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<u>(267,925)</u>	<u>(201,498)</u>
<b>Net increase in cash and cash equivalents</b>	23,615,329	24,667,045
<b>Cash and cash equivalents at beginning of period</b>	<u>33,768,677</u>	<u>9,101,632</u>
<b>Cash and cash equivalents at end of period</b>	<u>\$ 57,384,006</u>	<u>33,768,677</u>

See accompanying notes to consolidated financial statements.

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**Nanya Technology Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2018 and 2017**  
**(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)**

**(1) Company history**

Nanya Technology Corporation (the “Company”) was legally established with the approval of the Ministry of Economic Affairs on March 4, 1995, with registered address at No.98 Nanlin Road Dake Vil., Taishan District, New Taipei City, Taiwan. The main operating activities of the Company and its subsidiary (the “Group”) are researching, developing, manufacturing and selling semiconductor products, and the import and export of its machinery, equipment and raw materials.

**(2) Approval date and procedures of the consolidated financial statements:**

The consolidated financial statements were authorized for issuance by the Board of Directors on February 27, 2019.

**(3) New standards, amendments and interpretations adopted:**

- (a) The impact of the International Financial Reporting Standards (“IFRSs”) endorsed by the Financial Supervisory Commission, R.O.C. (“FSC”) which have already been adopted.

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018.

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendment to IFRS 2 “Clarifications of Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendment to IAS 7 “Statement of Cash Flows -Disclosure Initiative”	January 1, 2017
Amendment to IAS 12 “Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 40 “Transfers of Investment Property”	January 1, 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
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Except for the following items, the Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of signification changes are as follows:

(i) IFRS 15 “Revenue from Contracts with Customers”

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces the existing revenue recognition guidance, IAS 18 “Revenue”. The Group applies this standard retrospectively with the cumulative effect, it need not restate those contracts, but instead, continues to apply IAS 11, IAS 18 and the related Interpretations for comparative reporting period.

The following are the nature and impacts on the changing of accounting policies:

1) Sales of goods

For the sale of semiconductor products, revenue is currently recognized based on individual terms of sales contract and the related risks and rewards of ownership transfers. Revenue is recognized at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods. Under IFRS 15, revenue will be recognized when a customer obtains control of the goods.

2) Impacts on financial statements

The adoption of IFRS 15 would not have any material impact on its consolidated financial statements.

(ii) IFRS 9 “Financial Instruments”

IFRS 9 replaces IAS 39 “Financial Instruments: Recognition and Measurement” which contains classification and measurement of financial instruments, impairment and hedge accounting.

The Group adopted the consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018 but generally have not been applied to comparative information.

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
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The detail of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below:

1) Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. For an explanation of how the Group classifies and measures financial assets and accounts for related gains and losses under IFRS 9, please see note 4(g).

The adoption of IFRS 9 did not have any a significant impact on its accounting policies on financial liabilities.

2) Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with the ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortized cost, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than they are under IAS 39 – please see note 4(g).

3) Transition

The adoption of IFRS 9 have been applied retrospectively, except as described below,

- Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as on January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application:
  - The determination of the business model within which a financial asset is held.

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
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4) Classification of financial assets on the date of initial application of IFRS 9

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

	IAS39		IFRS9	
	Measurement categories	Carrying Amount	Measurement categories	Carrying Amount
<b>Financial Assets</b>				
Cash and equivalents	Loans and receivables(Note)	\$ 33,768,677	Amortized cost	33,768,677
Trade and other receivables	Loans and receivables(Note)	21,170,525	Amortized cost	21,170,525
Other financial assets (Guarantee deposits paid)	Loans and receivables(Note)	5,266	Amortized cost	5,266

Note: Cash and equivalents, notes and accounts receivable, lease payment receivable, other receivables and other financial assets (guarantee deposits paid) that were classified as loans and receivables under IAS 39 are now classified as financial assets at amortized cost upon initial adoption of IFRS 9.

(b) The impact of IFRS endorsed by FSC but not yet effective

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2019 in accordance with Ruling No. 1070324857 issued by the FSC on July 17, 2018:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 16 "Leases"	January 1, 2019
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019
Amendments to IFRS 9 "Prepayment features with negative compensation"	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019
Amendments to IAS 28 "Long-term interests in associates and joint ventures"	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019

Except for the following items, the Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of signification changes are as follows:

(i) IFRS 16 "Leases"

IFRS 16 replaces the existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
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IFRS 16 introduces a single and an on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. In addition, the nature of expenses related to those leases will now be changed since IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. There are recognition exemptions for short-term leases and leases of low-value items. The lessor accounting remains similar to the current standard – i.e. the lessors will continue to classify leases as finance or operating leases.

1) Determining whether an arrangement contains a lease

On transition to IFRS 16, the Group can choose to apply either of the following:

- IFRS 16 definition of a lease to all its contracts; or
- a practical expedient that does not need any reassessment whether a contract is, or contains, a lease.

The Group plans to apply the practical expedient to grandfather the definition of a lease upon transition. This means that it will apply IFRS 16 to all contracts entered into before January 1, 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

2) Transition

As a lessee, the Group can apply the standard using either of the following:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

On January 1, 2019, the Group plans to initially apply IFRS 16 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of right-of-use assets and liabilities at January 1, 2019, with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group chooses to elect the following practical expedients:

- apply a single discount rate to a portfolio of leases with similar characteristics.
- use hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
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- 3) So far, the most significant impact identified was that the Group will have to recognize the right-of-use assets and liabilities for the operating leases of its offices and land. The Group estimated both its right-of-use assets and lease liabilities to increase by \$300,605 thousand on January 1, 2019. No significant impact is expected for the Group's finance leases. The Group is not required to make any adjustments for leases where the Group is the intermediate lessor in a sub-lease.

The actual impacts of adopting the standards may change depending on the economic conditions and events which may occur in the future.

- (c) The impact of IFRS issued by IASB but not yet endorsed by the FSC

As of the date, the following IFRSs that have been issued by the International Accounting Standards Board (IASB), but have not yet to be endorsed by the FSC:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date 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

The Group believes that the adoption above IFRSs would not be relevant to the Group.

**(4) Summary of significant accounting policies:**

The significant accounting policies presented in the consolidated financial statements are summarized below. The following accounting policies were applied consistently throughout the periods presented in the consolidated financial statements.

- (a) Statement of compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as "the Regulations" ) and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations endorsed by the Financial Supervisory Commission, ROC. (hereinafter referred to IFRS as endorsed by the FSC).

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(b) Basis of preparation

(i) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, except for the following material items in the statement of financial position.

- 1) Financial liabilities are measured at fair value through profit or loss;
- 2) The net defined benefit liabilities are measured as the fair value of the plan assets less the present value of the defined benefit obligation.

(ii) Functional and presentation currency

The functional currency of the Group is determined based on the primary economic environment in which the entities operate. The consolidated financial statements are presented in New Taiwan Dollar, which is the Group's functional currency. All financial information presented in New Taiwan Dollar has been rounded to the nearest thousand.

(c) Basis of consolidation

(i) Principles of preparation of the consolidated financial statements

The consolidated financial statement is the combined financials for a parent company and its subsidiaries. A company controls an entity when it is exposed, or has rights, to variable returns from its involvement with the investee company and has the ability to affect those returns through its power over the investee company.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Total profit or loss of subsidiary applicable to the non-controlling interests is allocated to the non-controlling interests even if it results in the non-controlling interests to having a deficit balance.

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

Changes in the ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

When the Group lost its control over its subsidiary, it derecognizes the assets, liabilities and non-controlling interests of the ex-subsiary at carrying amount as of the date that control ceases, and also reevaluate the remaining investment at fair value as of the date that control ceases. Gain (loss) of the disposal is the changes of the followings: (a) total amount of the fair value of the acquisition price and the remaining investment as of the date that control ceases, and (b) total amount of the carrying amount of the assets, liabilities and non-controlling interests as of the date that control ceases. For the amount related to the ex-subsiary which was previously recognized in other comprehensive income, the basis of accounting is the same as the basis of direct disposal of related assets and liabilities which the Group should follow.

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(ii) List of subsidiaries included in the consolidated financial statements:

Investor	The name of subsidiaries	Business activity	Shareholding		Note
			December 31, 2018	December 31, 2017	
The Company	NANYA TECHNOLOGY CORP. U.S.A	Sales of semiconductor products	100.00 %	100.00 %	
The Company	NANYA TECHNOLOGY CORP. Delaware	Design of semiconductor products	100.00 %	100.00 %	
The Company	NANYA TECHNOLOGY CORP. H.K.	Sales of semiconductor products	100.00 %	100.00 %	
The Company	NANYA TECHNOLOGY CORP. Japan	Sales of semiconductor products	100.00 %	100.00 %	
The Company	PEI JEN Co., Ltd.	General import and export business	- %	100.00 %	Note 1
The Company	PIECEMAKERS TECHNOLOGY CORP.	Design and sales of products	- %	53.56 %	Note 2
The Company	NANYA TECHNOLOGY INTERNATIONAL LTD.	General investment business	100.00 %	- %	Note 3
NANYA TECHNOLOGY CORP. H.K.	NANYA TECHNOLOGY CORP., Europe GmbH	Sales of semiconductor products	100.00 %	100.00 %	
NANYA TECHNOLOGY CORP. H.K.	NANYA TECHNOLOGY CORP. Shenzhen	Sales of semiconductor products	100.00 %	100.00 %	

Note 1: Pei Jen Co. applied for the completion of its liquidation to the court in December 2018, resulting in the Company's loss of control over Pei Jen Co..

Note 2: In September 2017, the board of directors of Piece Makers Technology Corp. (Piece Makers) issued new shares for its employee stock options, resulting in the Group to decrease its shareholdings from 53.57% to 53.56%. On February 2018, the Company fully disposed all of its shares in Piece Makers, resulting in its loss of control over Piece Makers. Therefore, Piece Makers is no longer a subsidiary of the Company.

Note 3: The Company fully invested in its subsidiary, Nanya Technology International Ltd., in which the registration process had been completed in November 2018.

(iii) Subsidiaries not included in the consolidated financial statements: None.

(d) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Group at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period (hereinafter referred to as "the reporting date") are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary assets and liabilities is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for the effective interest and payments during the period, and such assets and liabilities reported in foreign currency translated at the exchange rate at the reporting date.

Foreign currency-denominated non-monetary assets and liabilities measured at fair value are retranslated to the functional currency at the exchange rate on the date when fair value was determined. Foreign currency-denominated non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction.

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(ii) Foreign operations

The assets and liabilities of foreign operations are translated to the Group's functional currency at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to the Group's functional currency at average rate. Foreign currency differences are recognized in other comprehensive income.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of any part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Group disposes of only part of investment in an associate or joint venture that includes a foreign operation while retaining significant or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign currency gains and losses arising from such items are considered to form part of a net investment in the foreign operation and are recognized in other comprehensive income.

(e) Classification of current and non-current assets and liabilities

An asset is classified as current under any one of the following conditions. All other assets are classified as non-current.

- (i) The asset is expected to be realized, or intended to be sold or consumed, in the Group's normal operating cycle;
- (ii) The asset is held primarily for the purpose of trading;
- (iii) The asset is expected to be realized within twelve months after the reporting period; or
- (iv) The asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

A liability is classified as current under any one of the following conditions. All other liabilities are classified as non-current.

- (i) The liability is expected to be settled in the normal operating cycle;
- (ii) The liability is held primarily for the purpose of trading;
- (iii) The liability is due to be settled within twelve months after the balance sheet date; or
- (iv) The liability does not have any unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by issuing equity instruments do not affect its classification.

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(f) Cash and cash equivalents

Cash comprises cash on hand and cash in bank. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits with maturities that go beyond 3 months and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes are classified under cash equivalents.

(g) Financial instruments

(i) Financial assets ( policy applicable from January 1, 2018 )

Financial assets are classified as financial assets measured at amortized cost.

The Group shall reclassify all affected financial assets only when it changes its business model for managing its financial assets.

1) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses, and impairment loss, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

2) Impairment of financial assets

The Group recognizes loss allowances for expected credit losses on financial assets measured at amortized cost (including cash and cash equivalents, notes and accounts receivable, other receivable, financial leases receivable, guarantee deposit paid and other financial assets).

The Group measures loss allowances at an amount equal to lifetime expected credit loss (ECL), except for the following which are measured as 12-month ECL:

- Bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

(Continued)

**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

Loss allowance for notes and accounts receivables are always measured at an amount equal to lifetime ECL.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 month after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group's historical experience and informed credit assessment as well as forward-looking information.

The Group assumes that there is an indication of credit risk on its financial asset if there are accounts receivable which are more than 30 days past due.

The Group considers a financial asset to be in default when the financial asset is more than 60 days past due.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Group assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial assets is credit-impaired includes the following observable data:

- a breach of contract such as a default or being more than 60 days past due;
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. The Group recognizes the amount of expected credit losses (or reversal) in profit or loss, as an impairment gain or loss.

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## NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

#### 3) Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash flows from the assets expire, or when the Group transfers substantially all the risks and rewards of ownership of the financial assets.

#### (ii) Financial assets (policy applicable before January 1, 2018)

Financial assets are categorized into loans and receivables.

##### 1) Loans and Receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market, which comprise accounts receivable and other receivables. Such assets are recognized initially at fair value, plus, any directly attributable transaction costs. Subsequent to initial recognition, receivables other than are measured at amortized cost using the effective interest method, less any impairment losses other than except for short-term receivables for which the effect of discounting is immaterial. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade-date accounting.

Interest income is included in other gains and losses of non-operating income and expenses.

##### 2) Impairment of financial assets

Except for financial assets at fair value through profit or loss, a financial asset is assessed for impairment at the reporting date. A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a 'loss event') that occurred subsequent to the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial assets that can be estimated reliably.

Objective evidence that financial assets are impaired includes delinquency or default (such as unpaid or delayed payment of interest or principal) by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults, or the disappearance of an active market for a security. In addition, for an available-for-sale investment in an equity security, a significant or prolonged decline in its fair value below its cost is accounted for as objective evidence of impairment.

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
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All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics. In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than the those suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is determined based on the excess of its carrying amount over the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

An impairment loss in respect of a financial asset measured at cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversible in subsequent periods.

An impairment loss in respect of a financial asset is written off directly against its carrying amount, except for accounts receivable, in which an impairment loss is credited to an allowance account against the receivables. When a receivable is determined to be uncollectible, it is written off from the allowance account. Any subsequent recovery of a receivable written off is charged to the allowance account. Changes in the amount of the allowance accounts are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss on a financial assets measured at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss to the extent that the carrying value of the asset does not exceed its amortized cost before impairment was recognized at the reversal date.

Impairment losses and recoveries resulting from accounts receivable are recognized under selling expenses in profit or loss. Impairment losses and recoveries resulting from financial assets other than accounts receivable are recognized in profit or loss, under other gains or losses of results from non-operating activities.

3) **Derecognition of financial assets**

Financial assets are derecognized when the contractual rights to the cash inflow from the asset are terminated or when the Group transfers substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in "other equity – unrealized gains or losses on available-for-sale financial assets" in profit or loss is included in other gains and losses of non-operating income and expenses.

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If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts.

(iii) Financial liabilities and equity instrument

1) Classification of debt or equity

Debt or equity instruments issued by the Group are classified as financial liabilities or equity in accordance with the substance of the contractual agreement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized based on the proceeds received, net of direct issue costs.

The conversion rights included in the convertible bond, which were issued by the Group and classified as derivative financial liabilities due to the settlement of shares are not exchanged to equity instruments through fixed amounts or other financial assets.

The derivative financial assets of convertible bonds were measured at fair value; the initial amounts of non-derivative financial liabilities were measured after deducting the separate embedded derivatives. Subsequent to initial recognition, non-derivative financial liabilities are measured at amortized cost using the effective interest method; derivative financial liabilities are measured at fair value, and changes therein, in fair value are recognized in profit or loss.

Interest related to the financial liability is recognized in profit or loss, and included in other gains and losses of non-operating income and expenses.

On conversion, the financial liability is reclassified to equity, and no gain or loss is recognized.

2) Other financial liabilities

Financial liabilities not classified as held for trading or designated as at fair value through profit or loss, which comprise accounts and other payables (including related parties), are measured at fair value, plus any directly attributable transaction costs at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method. Interest expense not capitalized as capital cost is recognized in profit or loss as finance costs.

(Continued)

**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
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3) Derecognition of financial liabilities

A financial liability is derecognized when its contractual obligation thereon has been discharged or cancelled or has expired. 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 charged to profit or loss, and is included in other gains and losses of non-operating income and expenses.

4) Offsetting of financial assets and liabilities

Financial assets and liabilities are presented on a net basis when the Group has the legally enforceable rights to offset and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

(iv) Derivative financial instruments ( policy applicable before January 1, 2018 )

The Group holds derivative financial instruments to hedge its foreign currency and interest rate exposures. Derivatives are recognized initially at fair value, and attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss and are included in non-operating income or expenses. When the fair value of a derivative instrument is positive, it is classified as a financial asset, and when the fair value is negative, it is classified as a financial liability.

Embedded derivatives are separated from the host contract and accounted for separately when the economic characteristics and risk of the host contract and of the embedded derivatives are not closely related.

(h) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories includes expenditure incurred in acquiring the inventories, production costs and other costs incurred in bringing them to their existing location and condition. The cost of inventories is calculated using the weighted-average method. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Investment in associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies.

Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount of the investment in associates includes goodwill which is arising from the acquisition less any accumulated impairment losses.

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

Unrealized profits resulting from the transactions between the Group and an associate are eliminated to the extent of the Group's interest in the associate. Unrealized losses on transactions with associates are eliminated in the same way, except to the extent that the underlying asset is impaired.

When the Group's share of losses exceeds its interest in associates, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

When the Group subscribes to additional shares in an associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment will differ from the amount of the Group's proportionate interest in the net assets of the associate. The Group records such a difference as an adjustment to investments, with the corresponding amount charged or credited to capital surplus. The aforesaid adjustment should first be adjusted under capital surplus. If the capital surplus resulting from changes in ownership interest is not sufficient, the remaining difference is debited to retained earnings. If the Group's ownership interest is reduced due to the additional subscription to the shares of the associate by other investors, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate shall be reclassified to profit or loss on the same basis as would be required if the associate had directly disposed of the related assets or liabilities.

(j) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The cost of a self-constructed asset comprises material, direct labor, any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and any borrowing cost that is eligible for capitalization. In additions, cost also includes transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. The cost of the software is capitalized as part of the property, plant and equipment if the purchase of the software is necessary for the property, plant and equipment to be capable of operating.

Gain or loss arising from the disposal of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and is charged to profit or loss.

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(ii) Subsequent cost

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with the expenditure can be reasonably assessed, and will flow to the Group. The carrying amount of those parts that are replaced is derecognized. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

Depreciation of property, plant and equipment is provided over their estimated useful lives by using the straight-line method.

If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise, the asset is depreciated over the shorter of the lease term and its useful life.

Land has an unlimited useful life and therefore is not depreciated.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

- 1) Buildings: 25 years.
- 2) Machinery and equipment: 5 to 16 years.
- 3) Other equipment: 3 to 15 years.

Depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectations differ from the previous estimates, the change is accounted for as a change in accounting estimate.

(k) Leases

(i) Lesser

Asset under financing lease is recognized on a net basis as lease receivable. Initial direct costs incurred in negotiating and arranging an operating lease is added to the net investment in the leased asset. Finance income is allocated to each period during the lease term in order to produce a constant periodic rate of interest on the remaining balance of the receivable.

Lease income from an operating lease is recognized as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease is added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income. Incentives granted to the lessee to enter into the operating lease are spread over the lease term on a straight-line basis so that the lease income received is reduced accordingly.

Contingent rents are recognized as income in the period when the lease adjustments are confirmed.

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
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(ii) Lessee

Leases in which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the lease asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the lease asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term in order to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases and are not recognized in the Group's balance sheets.

Payments made under operating leases (excluding insurance and maintenance expenses) are recognized as expense on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the reduction of the lease expense, over the term of the lease.

Contingent rent is recognized as expense in the period in which it is incurred.

(I) Intangible assets

Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates.

Other development expenditure is recognized as an expense when incurred.

The depreciable amount of capitalized development expenditure is determined after deducting its residual value. Amortization is recognized as an expense on a straight-line basis over the estimated useful lives of intangible assets from the date that they are made available for use.

The residual value, amortization period, and amortization method for an intangible asset with a finite useful life are reviewed at least at each fiscal year-end. Changes therein are accounted for as changes in accounting estimates.

(m) Impairment of non-derivative financial assets

At each reporting date, an assessment is made whether there is any indication that an asset (including inventories, deferred tax assets, and other non-financial assets) may have been impaired. If any such indication exists, the recoverable amount of the asset is estimated. If it is not possible to determine the recoverable amount for the individual asset, then the Group will have to determine the recoverable amount for the asset's cash-generating unit (CGU).

The recoverable amount for individual asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Such reduction is treated as an impairment loss, which is charged to profit or loss.

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
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The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amount of that asset is estimated. An impairment loss recognized in prior periods for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The increase in the carrying amount shall not exceed the carrying amount (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior years.

(n) Treasury stock

Repurchased shares are recognized under treasury shares based on their repurchase price (including all directly accountable costs). Gain on disposal of treasury shares is recognized under "Capital Reserve – Treasury Share Transactions"; Loss on disposal of treasury shares is offset against existing capital reserves arising from similar types of treasury shares. If there are insufficient capital reserves to be offset against, then such loss is accounted for under retained earnings. The carrying amount of treasury shares is calculated using the weighted average of different types of repurchase.

If treasury shares are cancelled, "Capital Reserve – Share Premiums" and "Share Capital" are debited proportionately. Gain on cancellation of treasury shares is recognized under existing capital reserves arising from similar types of treasury shares; Loss on cancellation of treasury shares is offset against existing capital reserves arising from similar types of treasury shares. If there are insufficient capital reserves to be offset against, then such loss is accounted for under retained earnings.

(o) Revenue recognition

(i) Revenue from contracts with customers (applicable from January 1, 2018)

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring goods or services to a customer. The Group recognizes revenue when it satisfies a performance obligation by transferring control of a good or a service to a customer.

The Group manufactures and sells semiconductor products on the market. The Group recognizes revenue when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

A receivable is recognized when the goods are delivered as this is the point in time that the Group has a right to an amount of consideration that is unconditional.

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(ii) Revenue recognition (policy applicable before January 1, 2018)

Revenue from the sale of goods in the course of ordinary activities is measured at fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement. For international shipments, transfer usually occurs upon loading the goods onto the relevant carrier at the port. All the risks and rewards have been transferred when products are insured against global cargo movement. For domestic sales, transfer occurs upon receipt by the customer.

(p) Employee benefits

(i) Defined contribution plan

Obligations for contributions to a defined contribution pension plan are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(ii) Defined benefit plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of a defined benefit pension plan is calculated by estimating the discounted present value of future benefit that employees have earned in return for their service in the current and prior periods. Any unrecognized past service costs and the fair value of any plan assets are deducted from the aforementioned net obligation. The discount rate is the yield on the reporting date of government bonds that have maturity dates approximating the terms of the Group's obligations and are denominated in the same currency in which the benefits are expected to be paid.

An actuarial calculation of pension costs and related liabilities is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, an asset is recognized, but the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to the plan. An economic benefit is available to the Group if it is realizable during the life of the plan, or on settlement of the plan liabilities.

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized immediately in profit or loss.

Remeasurement of the net defined benefit liabilities (assets), which comprise (1) actuarial gains and losses, (2) the return on plan assets (excluding interest), and (3) the effect of the asset ceiling (if any, excluding interest), is recognized immediately in other comprehensive income. The amounts recognized in other comprehensive income can be reclassified to retained earnings or other equity. If the amounts recognized in other comprehensive income are transferred to other equity, they shall not be reclassified to profit or loss or recognized in retained earnings in a subsequent period.

Gains or losses on the curtailment or settlement of a defined benefit plan are also recognized as pension expenses when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, any change in the present value of the defined benefit obligation, and any related actuarial gains or losses and past service cost that were not previously recognized.

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

(q) Share-based payment

The grant-date fair value of share-based payment awards granted to employee is recognized as employee expenses, with a corresponding increase in equity, over the period when employees become unconditionally entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions, and there is no true-up for the differences between expected and actual outcomes.

(r) Income taxes

Tax expense comprises current tax expense and deferred tax expense. Current and deferred taxes are included in profit or loss for the period, except to the extent that the tax arises from a business combination or a transaction or event which is recognized directly in equity or other comprehensive income.

Current tax comprises the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date, and any adjustments for current tax of prior periods.

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

Deferred tax is recognized for the temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax is recognized for all temporary differences, except to the extent that the deferred tax arises from:

- (i) The initial recognition of an asset or liability in a transaction which is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit (loss).
- (ii) The investments in subsidiaries, branches and associates, and interests in joint ventures where it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates, based on tax laws that have been enacted or substantively enacted by the reporting date and are expected to apply to the period when the asset is realized or the liability is settled.

Deferred tax assets are offset against deferred tax liabilities only if:

- (i) the Group has a legal enforceable right to set off current tax assets against current tax liabilities; and
- (ii) the deferred tax assets and the deferred liabilities relate to income taxes levied by the same taxation authority on either:
  - 1) The same taxable entity; or
  - 2) Different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously; in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

A deferred tax asset is recognized for the carry forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the unused tax losses, unused tax credits and deductible temporary differences can be utilized. 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 the benefit of part or the deferred tax asset will be utilized.

(s) Earnings per share

The basic earnings per share are calculated as the profit attributable to the ordinary shareholder of the Group divided by weighted-average number of ordinary shares outstanding. The diluted earnings per share is calculated based on the profit attributable to ordinary shareholders of the Group divided by weighted average number of ordinary shares outstanding after adjustment for the effects of all potentially dilutive ordinary shares, such as convertible bonds, employee remuneration.

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(t) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may incur revenues and incur expenses. Operating results of the operating segment are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance.

**(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty:**

The preparation of the consolidated financial statements in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, requires management to make judgments, estimates, and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

The management continues to monitor its accounting estimates and assumptions. It recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the next period.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is as follows:

(a) Valuation of inventories

As inventories are stated at the lower of cost or net realizable value, the Group estimates the net realizable value of inventories for obsolescence and unmarketable items at the end of the reporting period and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions as to future demand within a specific time horizon. Due to the rapid industrial transformation, there may be significant changes in the net realizable value of inventories.

**(6) Explanation of significant accounts:**

(a) Cash and cash equivalents

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Petty cash	\$ 157	156
Checking accounts and demand deposit	6,377,176	3,943,055
Cash equivalents:		
Time deposits	50,601,623	29,188,507
Commercial paper	404,150	302,838
Repurchase agreements collateralized by corporate bonds	900	334,121
	<u>\$ 57,384,006</u>	<u>33,768,677</u>

Refer to Note 6(w) for the interest rate risk and sensitivity analysis of the financial assets and liabilities of the Group.

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
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(b) Financial liabilities at fair value through profit or loss

	<b>December 31, 2017</b>
Financial liabilities held-for-trading :	
Derivative instruments not used for hedging	\$ 382,295
Embedded derivative-convertible bonds	1,856,146
Total	<b>\$ 2,238,441</b>

Derivatives financial instruments are used to hedge foreign currency exposures. The Group holds the following derivative financial instruments, which were not applicable for hedge accounting and were accounted for as held-for-trading financial liabilities, were as follows:

Forward exchange purchased:

	<b>December 31, 2017</b>		
	<b>Contract Amount (in thousand)</b>	<b>Currency</b>	<b>Maturity dates</b>
Forward exchange purchased			
Non-delivery forward purchased	USD 500,000	USD to TWD	2018.3.20~2018.3.22

Remeasurement at fair value recognized in profit or loss is disclosed in Notes 6(u).

(c) Notes and accounts receivable

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Notes receivable from operating activities	\$ 481	3,577
Accounts receivable-measured at amortized cost	9,772,558	8,530,890
Less : Loss allowance	(9,298)	(8,859)
	<b>\$ 9,763,741</b>	<b>8,525,608</b>

The Group applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for notes and accounts receivables on December 31, 2018. To measure the expected credit losses, notes and accounts receivables have been grouped based on shared credit risk characteristics and the days past due, as well as incorporated forward looking information, including macroeconomic and relevant industry information.

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

The loss allowance provision as of December 31, 2018 was determined as follows:

<u>Due days</u>	<u>Notes and accounts receivables gross carrying amount</u>	<u>Weighted average loss rate</u>	<u>Loss allowance provision</u>
Current	\$ 8,984,499	0.02%	2,088
1 to 30 days past due	766,506	0.90%	6,899
31 to 60 days past due	4,442	1.10%	49
61 to 90 days past due	1,154	1.30%	15
Over 91 days past due	16,438	1.50%	247
	<u>\$ 9,773,039</u>		<u>9,298</u>

As of December 31, 2017, the Group applies the incurred loss model to consider the loss allowance provision of notes and accounts receivable, and the aging analysis of notes and accounts receivable, which were past due but not impaired, was as follows:

	<u>December 31, 2017</u>
1 to 30 days past due	<u>\$ 49,884</u>

The movement in the allowance for notes and accounts receivable was as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u> <u>Collectively assessed impairment</u>
<b>Balance on January 1, per IAS 39</b>	\$ 8,859	9,284
Adjustment on initial application of IFRS 9	-	
Balance on January 1, per IFRS 9	8,859	
Foreign exchange gains (losses)	439	(425)
<b>Balance on December 31</b>	<u>\$ 9,298</u>	<u>8,859</u>

Please refer to Note 6(w) for other information of credit risk.

(d) Other receivables

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Receivable from stock settlement	\$ -	10,616,574
Tax refund receivable	954,358	565,827
Interest receivable	157,019	28,347
Lease payment receivable	167,601	309,752
Others	34,133	80,916
	<u>\$ 1,313,111</u>	<u>11,601,416</u>

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
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As of December 31, 2017, no allowance for impairment was provided because all of the other receivables were still within the normal credit terms and were evaluated to be collectable. Please refer to Note 6(w) for other information of credit risk.

(e) Inventories

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Raw materials	\$ 598,067	400,607
Work in progress	5,870,118	5,393,122
Finished goods	5,699,552	1,067,788
Merchandise	-	27,013
	<b><u>\$ 12,167,737</u></b>	<b><u>6,888,530</u></b>

The Group recognized cost of goods sold amounting to \$37,312,264 and \$29,581,144 for the years ended December 31, 2018 and 2017, respectively. The Group did not recognize any loss or gain from devaluation of inventories as there was no indication of impairment or net realizable value of inventories has increased because the circumstance that caused the inventory devaluation in prior period has improved on inventories for the year ended December 31, 2018.

The circumstance that caused the net realizable value to be lower than the cost no longer exists, therefore, the net realizable value of inventories had increased and the Group derecognized a loss from devaluation of inventories of \$5,072 for the year ended December 31, 2017.

(f) Investments accounted for using equity method

The components of the investments accounted for using equity method were as follows:

	<b>December 31, 2018</b>
Associates	<b><u>\$ 3,006,603</u></b>

The related information of the major associate to the Group was as follows:

<u>Name of Associates</u>	<u>Nature of Relationship to the Group</u>	<u>Registration Country</u>	<u>Percentage of ownership December 31, 2018</u>
Formosa Advanced Technologies Co., Ltd.(FATC)	It mainly engages in assembling and testing of module products, as well as in the research and development of integrated circuits.	Taiwan	19.00 %

The fair value of major associates listed on the Stock Exchange was as follows:

	<b>December 31, 2018</b>
Formosa Advanced Technologies Co., Ltd.	<b><u>\$ 14,062,667</u></b>

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
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The aggregated financial information of the major associate was as follows:

The financial information of FATC was as follows:

	<b>December 31, 2018</b>
Current assets	\$ 6,792,443
Non-current assets	5,882,131
Current liabilities	(1,231,815)
Non-current liabilities	<u>(86,280)</u>
Net asset	<u>\$ 11,356,479</u>
Net asset contributed to FATC	<u>\$ 11,356,479</u>
	<b>For the year ended December 31, 2018</b>
Operating revenue	<u>\$ 8,785,525</u>
Profit	1,420,293
Other comprehensive income	<u>(138,670)</u>
Total comprehensive income	<u>\$ 1,281,623</u>
Comprehensive income contributed to FATC	<u>\$ 1,281,623</u>
	<b>For the year ended December 31, 2018</b>
Share of net assets of the major associate at January 1	\$ -
Acquisition of share of net assets of the major associate allocated to the Group	2,162,315
Total comprehensive income contributed to the Group	(4,588)
Uncollected dividends beyond the collection period which are reclassified to capital surplus	<u>5</u>
Share of net assets of major associate at December 31	2,157,732
Add: Goodwill	887,684
Less: Unrealized profits on upstream sales net assets of the associates	<u>(38,813)</u>
Total carrying amount of the major associate	<u>\$ 3,006,603</u>

As of December 31, 2018, FATC held 7,376 thousand shares of the Group, with the total carrying value amounting to \$405,692.

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(g) Loss control over subsidiaries

- (i) The Company had disposed 53.56% of its shares in Piece Makers, with a selling price of \$132,584; therefore, it lost control over Piece Makers on February 26, 2018. The Group recognized a gain on disposal of \$497 in profit or loss, which was included in other gains and losses.

The carrying amount of assets and liabilities of Piece Makers Technology Corp on February 26, 2018 were as follow:

	<b>February 26, 2018</b>
Cash and cash equivalents	\$ 218,521
Accounts receivable and other receivables	54,228
Inventories	136,906
Other current assets	3,160
Property, plant, and equipment	3,892
Other non-current assets	666
Accounts payable and other payables	(170,752)
Other non-current liabilities	(6)
Carrying amount of net assets	<u><u>\$ 246,615</u></u>

- (ii) Pei Jen Co., Ltd (hereinafter referred to as “ Pei Jen” ), a subsidiary of the Company, had applied for the completion of its liquidation to the court on December 10, 2018, resulting in the Company's loss of control over Pei Jen. The Company included the distribution of the remaining properties from Pei Jen in its balance sheet, which consisted of cash and cash equivalents amounting to \$44,284, and other tax refund receivable amounting to \$12.

(h) Property, plant and equipment

	Land	Building	Machinery and equipment	Other equipment	Under construction	Total
<b>Cost:</b>						
<b>Balance as of January 1, 2018</b>	\$ 1,013,924	7,502,631	172,719,912	1,133,770	1,778,293	184,148,530
Additions	-	-	2,483,401	77,247	18,442,417	21,003,065
Disposals	-	-	(542,734)	(65,391)	-	(608,125)
Disposal of a subsidiary	-	-	(60)	(23,771)	-	(23,831)
Reclassification	-	237,913	6,085,627	10,841	(6,334,267)	114
Effect of exchange rate change	-	91	289	82	-	462
<b>Balance as of December 31, 2018</b>	<u>\$ 1,013,924</u>	<u>7,740,635</u>	<u>180,746,435</u>	<u>1,132,778</u>	<u>13,886,443</u>	<u>204,520,215</u>
<b>Balance as of January 1, 2017</b>	\$ 1,013,924	4,197,562	125,215,286	1,431,504	25,574,275	157,432,551
Additions	-	-	860,111	43,379	26,548,823	27,452,313
Disposals	-	-	(363,296)	(25,054)	-	(388,350)
Derecognized lease assets	-	-	-	(345,636)	-	(345,636)
Reclassification	-	3,305,157	47,009,898	29,750	(50,344,805)	-
Effect of exchange rate change	-	(88)	(2,087)	(173)	-	(2,348)
<b>Balance as of December 31, 2017</b>	<u>\$ 1,013,924</u>	<u>7,502,631</u>	<u>172,719,912</u>	<u>1,133,770</u>	<u>1,778,293</u>	<u>184,148,530</u>

(Continued)

**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

	Land	Building	Machinery and equipment	Other equipment	Under construction	Total
<b>Accumulated depreciation / impairment:</b>						
<b>Balance as of January 1, 2018</b>	\$ -	1,676,927	95,179,932	1,049,791	-	97,906,650
Depreciation for the period	-	301,360	11,659,800	22,106	-	11,983,266
Reversal of impairment loss	-	-	(109,745)	-	-	(109,745)
Disposals	-	-	(533,850)	(65,391)	-	(599,241)
Disposal of a subsidiary	-	-	(60)	(19,879)	-	(19,939)
Reclassification	-	-	(185)	191	-	6
Effect of exchange rate change	-	62	142	22	-	226
<b>Balance as of December 31, 2018</b>	<u>\$ -</u>	<u>1,978,349</u>	<u>106,196,034</u>	<u>986,840</u>	<u>-</u>	<u>109,161,223</u>
<b>Balance as of January 1, 2017</b>	\$ -	1,450,874	86,921,615	1,142,725	-	89,515,214
Depreciation for the period	-	226,107	8,162,788	40,137	-	8,429,032
Impairment loss	-	-	488,988	-	-	488,988
Disposals	-	-	(363,296)	(25,013)	-	(388,309)
Derecognized lease assets	-	-	-	(136,693)	-	(136,693)
Reclassification	-	-	(28,759)	28,759	-	-
Effect of exchange rate change	-	(54)	(1,404)	(124)	-	(1,582)
<b>Balance as of December 31, 2017</b>	<u>\$ -</u>	<u>1,676,927</u>	<u>95,179,932</u>	<u>1,049,791</u>	<u>-</u>	<u>97,906,650</u>
<b>Carrying amounts:</b>						
<b>Balance as of December 31, 2018</b>	<u>\$ 1,013,924</u>	<u>5,762,286</u>	<u>74,550,401</u>	<u>145,938</u>	<u>13,886,443</u>	<u>95,358,992</u>
<b>Balance as of December 31, 2017</b>	<u>\$ 1,013,924</u>	<u>5,825,704</u>	<u>77,539,980</u>	<u>83,979</u>	<u>1,778,293</u>	<u>86,241,880</u>

(i) Reversal of impairment loss and impairment loss

The estimated future recoverable amount of equipment, which had been identified to be no longer useful for its operation, is lower than the book value; therefore, the Group recognized an impairment loss of \$488,988 for the year ended December 31, 2017. In 2018, the Group reassessed its estimates, wherein the amount of \$109,745 of the initially recognized impairment has been reversed.

(ii) Leased assets

Please refer to Note 6(l) for the further description of finance lease liabilities.

(iii) Property, plant and equipment under construction

	<b>For the years ended</b>	
	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
Capitalized interest amounts	\$ -	163,901
Capitalized interest rates	-	1.79%~1.98%

(Continued)

**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(i) Lease receivables

- (i) On June 18, 2009, the Group signed an amended long term lease agreement with Inotera Memories, Inc. (its name was changed to Micron Technology Taiwan in March, 2017, referred to as "MTTW") on the lease of building, facilities and land located on 348, 348-1 and 348-3, Hwa Ya Section, Kueishan District, Taoyuan City. This amended lease agreement, which took effect retroactively from January 1, 2009, includes the renewal term. Initial lease term is from January 1, 2009 to December 31, 2018. However MTTW is entitled to renew this amended lease agreement for an unlimited number of consecutive additional terms of five years each, by providing a written notice with the intention to renew the lease term commencing from January 1, 2019. MTTW has completed the renewal of its lease agreement, with a written notice on December 13, 2018. In addition, MTTW has an exclusive option to purchase the leased assets for a total purchase price of USD50,000 thousand on and after January 1, 2024. Also, the rental receivable for the entire year of 2009 has been waived. Initial yearly rentals for the leased building (including facilities and land) were USD13,010 thousand and USD1,990 thousand, respectively from January 1, 2010 to December 31, 2018; the first yearly renewal rentals for the leased building (including facilities and land) will be USD8,010 thousand and USD1,990 thousand, respectively, from January 1, 2019 to December 31, 2023; the subsequent yearly renewal rentals for the leased building (including facilities and land) will be USD10 thousand and USD1,990 thousand commencing from January 1, 2024. The amended lease agreement for the building (including facilities) is treated as a capital lease because (a) the present value of the periodic rental payments made since the inception date is at least 90% of the market value of the leased assets and (b) the lease term is equal to 75% or more of the total estimated economic life of the leased assets. The land is treated as an operating lease.
- (ii) The total lease receivable from the capital lease of the building (including facilities) was \$5,185,620; the implicit interest rate was 10.56%. The cost of the leased assets at the beginning of the lease period was \$2,656,223. The difference was recognized as unrealized interest revenue of \$2,529,397. For the years ended December 31, 2018 and 2017, the Group recognized the interest revenue of \$119,578 and \$150,240, respectively, from the amortization of unrealized interest revenue.

The details of lease receivables were as follows:

	December 31, 2018			December 31, 2017		
	Gross investment in the lease	Unearned finance income	Present value of minimum lease payments receivable	Gross investment in the lease	Unearned finance income	Present value of minimum lease payments receivable
Less than one year	\$ 264,331	96,730	167,601	429,330	119,578	309,752
Between one and five years	1,057,320	181,420	875,900	1,057,320	268,124	789,196
More than five years	-	-	-	264,330	10,025	254,305
Sub-total	<u>\$ 1,321,651</u>	<u>278,150</u>	<u>1,043,501</u>	<u>1,750,980</u>	<u>397,727</u>	<u>1,353,253</u>
Current			\$ 167,601			309,752
Non-current			<u>875,900</u>			<u>1,043,501</u>
			<u>\$ 1,043,501</u>			<u>1,353,253</u>

(Continued)

**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(j) Long-term borrowings

(i) The Group had an unused long-term of credit with a carrying amount of \$1,100,000 and \$1,600,000 as of December 31, 2018 and 2017.

(ii) Issuance and redemption of loans

1) The Group signed a syndicated loan agreement with Taiwan Cooperative Bank, the lead bank, and 15 other banks (hereinafter referred to as "the syndicate banks") for a syndicated loan with a credit line of \$12,000,000 on February 18, 2016 and applied for appropriation of loans of \$11,000,000 as of December 31, 2017. The Group has fully repaid the syndicated loan before December, 2017.

2) The Group signed a syndicated loan agreement with Bank of Taiwan, the lead bank, and 14 other banks (hereinafter referred to as "the syndicate banks") for a syndicated loan with a credit line of \$12,000,000 as of November 30, 2017. The Group has fully repaid the syndicated loan in November, 2017.

(k) Bonds Payable

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Issuance of unsecured overseas convertible bonds	\$ 14,267,000	14,924,000
Unamortized discount on bonds payable	-	(229,383)
Conversion of convertible bonds to ordinary shares	<u>(14,267,000)</u>	<u>(11,407,906)</u>
Balance at end of period	<u>\$ -</u>	<u>3,286,711</u>
	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Embedded derivatives-call and put options and conversion rights re-measured at fair value through loss (included financial liabilities at fair value through profit or loss)	<u>\$ -</u>	<u>1,856,146</u>
	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Embedded derivatives-call and put options and conversion rights re-measured at fair value through loss (included other gain and losses)	<u>\$ 140,266</u>	<u>7,598,748</u>

(Continued)

**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

<u>Item</u>	<u>The first unsecured overseas convertible bond</u>
1. Issue amount	USD 500,000 thousand
2. Issue par value	USD 200 thousand
3. Issue period	2017.1.24~2022.1.24
4. Bond expiration	5 years
5. Coupon rate	0%
6. Conversion price	TWD 52.47 dollars
7. Conversion period	The bondholder has the right to convert any bonds into shares that are subject to the terms set forth in the contract. The bonds are convertible anytime after 40 day from the issuance date (excluding the issuance date itself).
8. Put option of bond holders	<p>(A) Each bondholder may require the Company to redeem, in whole or in part, the convertible bonds at an amount, hereinafter referred to as “Early Redemption Amount”(ERA), calculated at par value, plus, interest compensation, which is calculated semi-annually at the rate of 1.75% per annum, after 3 years from the issuance date (excluding the issuance date itself).</p> <p>(B) Each bondholder may redeem in advance, in whole or in part, the convertible bond if the Company is delisted from the Taiwan stock exchange.</p> <p>(C) Each bondholder may redeem in advance, in whole or in part, the convertible bonds if the Company meets all the conditions on the changes in its rights of control in the contract.</p>
9. Call option of issuer	<p>(A) The issuer may redeem, in whole or in part, the convertible bonds at the ERA if the closing price of the Company’s shares which translated into US dollars at the prevailing rate for a period of 20 trading days in any period of 30 consecutive trading days is above 130 percent of the ERA multiplied the conversion ratio and divided by par value.</p> <p>(B) The issuer may redeem its outstanding convertible bonds at their Early Redemption Amount if more than 90 per cent, in principal, of the amount of the bonds have already been converted, redeemed, repurchased or cancelled.</p> <p>(C) The issuer may redeem, in whole or in part, or the convertible bonds at their Early Redemption Amount if the Company has become obliged to pay the additional interests and costs as a result of any changes in, or amendment to, the laws or regulations of the ROC.</p>

The host contract debt instruments and derivative conversion rights instruments were included in convertible bond, the host contract are measured at an effective annual rate equal to 1.6593%; the derivative conversion rights instruments are measured at fair value recognized in profit or loss. The Company approved to distribute its cash dividends for 2016 in the general meeting of stockholders held on May 26, 2017. As a result, the conversion price decreased to \$50.94 dollars since June 26, 2017 (ex-dividend date).

(Continued)

**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

Because the bondholders had exercised the entire conversion rights, the first unsecured overseas convertible bond issued by the Company had been fully converted in the first quarter of 2018.

(l) Finance lease liabilities

- (i) The Group signed a long-term lease agreement with Inotera Memories, Inc. (its name was changed to Micron Technology Taiwan in March, 2017, referred to as "MTTW") to lease out a portion of the building and land (including supplemental equipment) located at No. 667, Fuhsing 3rd Road, Hwa-Ya Technology Park, Kueishan Dist., Taoyuan City. The lease term covers a total lease period of 354 months commencing from July 1, 2005, and will expire on December 31, 2034 (including the period when the lease is automatically extended). The monthly rentals for the lease of building and land (including supplemental equipment) were \$2,058 and \$310, respectively. The lease of the building is treated as a lease because the present value of the periodic rental payments made since the inception date is at least 90% of the market value of the leased assets. However, the lease of the land is treated as an operating lease.
- (ii) The lease of the building is treated as a finance lease with implicit interest rate of 5.88%. The net carrying value of leased assets and the initial total amount of lease payable for the finance lease of the building was \$345,637.
- (iii) The rental expense from the lease of land which was treated as an operating lease amounted to \$0 and \$620 for the years ended December 31, 2018 and 2017. The expense was fully paid as of December 31, 2018 and 2017.
- (iv) The Company signed an agreement for termination on its lease with MTTW in March 2017. The Company derecognized the lease obligation payables on the termination date and recognized a gain on disposal of lease payable amounting to \$63,542 for the difference between carrying amount and fair value of leased property.

(m) Employee benefits

(i) Defined benefit plan

The movements in the present value of the defined benefit obligations and fair value of plan assets were as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Present value of defined benefit obligations	\$ 1,025,794	984,774
Fair value of plan assets	<u>(488,491)</u>	<u>(458,977)</u>
Net defined benefit liabilities	<u><b>\$ 537,303</b></u>	<u><b>525,797</b></u>

(Continued)

## NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

The Group has established an employee defined benefit retirement plan covering full-time employees. Under this plan, contributions are made to an independent fund that is deposited with Bank of Taiwan. Employees are eligible for retirement and payments of retirement benefits are based on years of service and the average salary for the last six months before the employee's retirement according to the R.O.C. Labor Standards Law.

1) Composition of plan assets

The Labor Pension Fund Supervisory Committee manages the Group's pension fund which is being funded according to the Labor Standards Law. Under the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, this fund is required to distribute minimum income but such minimum income shall not be less than the interest income derived from two-year time deposit with the local banks.

As of December 31, 2018, the Group's pension fund with Bank of Taiwan amounted to \$488,491. Please refer to the related information published on the website of the Labor Pension Supervisory Committee concerning the utilization of the labor pension fund, related yield rate and its allocation.

2) Movements in present value of the defined benefit obligations

	<u>For the years ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Defined benefit obligation as of January 1,	\$ 984,774	898,602
Current service and interest costs	17,675	16,893
Remeasurement of net defined benefit liabilities		
— actuarial losses arising from change in financial assumptions	30,568	82,226
Benefits paid	(7,223)	(12,947)
Defined benefit obligation as of December 31,	<u>\$ 1,025,794</u>	<u>984,774</u>

3) Movements in fair value of defined benefit plan assets

	<u>For the years ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Fair value of plan assets as of January 1,	\$ 458,977	445,089
Interest income	5,822	5,660
Remeasurement of net defined liabilities		
— return on plan assets (excluding interest income)	12,472	(1,319)
Contributions from employer	13,998	13,918
Benefits already paid by the plan	(2,778)	(4,371)
Fair value of plan assets as of December 31,	<u>\$ 488,491</u>	<u>458,977</u>

(Continued)

**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

4) Expenses recognized in profit or loss

	<u>For the years ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Current service costs	\$ 5,365	5,660
Net interest income of net defined benefit liabilities	12,310	11,233
Expected rate of return for the plan asset	<u>(5,822)</u>	<u>(5,660)</u>
	<u>\$ 11,853</u>	<u>11,233</u>
Cost of goods sold	\$ 7,799	7,759
Operating expenses	<u>4,054</u>	<u>3,474</u>
	<u>\$ 11,853</u>	<u>11,233</u>

5) Remeasurement of net defined benefit liabilities recognized in other comprehensive income

	<u>For the years ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Balance of January 1,	\$ 11,729	(57,613)
Recognized during the period	14,477	69,342
Adjustment in tax rate	<u>(2,571)</u>	<u>-</u>
Balance of December 31,	<u>\$ 23,635</u>	<u>11,729</u>

6) Actuarial assumptions

The principal actuarial assumptions at the reporting date were as follows:

	<u>December 31,</u>	<u>December 31,</u>
	<u>2018</u>	<u>2017</u>
Discount rate	1.25 %	1.25 %
Future salary increases	2.85 %	2.85 %

Based on the actuarial report, the Group is expected to make contributions of \$11,860 to the defined benefit plans in 2019.

The weighted average duration of the defined benefit plan is 18.7 years.

(Continued)

**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

7) Sensitivity analysis

As of December 31, 2018 and 2017, the effects of the present value of the defined benefit obligation arising from changes in principal actuarial assumptions were as follows:

	<b>Effect of defined benefit obligations</b>	
	<b>Increase Amount</b>	<b>Decrease Amount</b>
December 31, 2018		
Discount rate (change 0.25%)	\$ 41,904	(39,885)
Future salaries (change 1%)	178,420	(149,450)
December 31, 2017		
Discount rate (change 0.25%)	43,318	(41,134)
Future salaries (change 1%)	184,951	(153,472)

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. The sensitivity analysis adopts the same methods for determining the defined benefit assets at balance sheet date.

The same methods and assumptions are adopted in the two-year sensitivity analysis.

(ii) Defined contribution plan

The Group contributes an amount equal to 6% of the employee's monthly wages to the Labor Pension personal account of the Bureau of the Labor Insurance in accordance with the provisions of the Labor Pension Act, under which, the Group is not required to bear the regulated or putative obligation subsequent to the payment of fixed-rate contribution.

The overseas companies of the Group contribute an appropriate pension amount to the designated account of the local government in accordance with the statutory laws, under which, the Group is not required to bear the regulated or putative obligation subsequent to the payment of fixed-rate contribution.

The Group's pension costs under the contribution pension plan amounted to \$144,195 and \$131,896 for the years ended 2018 and 2017, respectively.

(Continued)

**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(n) Income tax

According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable upon filing the corporate income tax return commencing FY 2018.

- (i) The Group's income tax expense recognized for the years ended December 31, 2018 and 2017 were as follows:

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Current tax expense		
Current period	\$ 2,209,960	1,523,327
Adjustment for prior periods	15,009	10,951
Deferred tax (income) expense	<u>(1,482)</u>	<u>1,629</u>
Tax expense	<u><b>\$ 2,223,487</b></u>	<u><b>1,535,907</b></u>

The Group's tax income recognized in other comprehensive income for the years ended December 31, 2018 and 2017 were as follows:

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Items that could not be reclassified subsequently to profit or loss:		
Remeasurement of net defined benefit plan	\$ 3,619	14,203
Adjustment in tax rate	<u>2,571</u>	<u>-</u>
	<u><b>\$ 6,190</b></u>	<u><b>14,203</b></u>
Items that may be reclassified subsequently to profit and loss:		
Unrealized (losses) gains on available-for-sale financial assets	<u>\$ -</u>	<u><b>1,602,346</b></u>

The Group's tax expense calculated at the statutory income tax rate on the financial reporting income before income taxes was reconciled to the tax expense as follows:

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Income tax calculated based on local tax rate	\$ 8,326,847	7,069,814
Effect of foreign tax rate change	5,543	8,668
Decrease of investment tax credit	-	(1,467)
Tax effect of permanent differences	(85,999)	1,368,820
Tax effect of unrecognized changes of temporary difference	178,361	95,645
Tax effect of unrecognized current-year loss carryforward	(8,405,858)	(8,519,047)
Income basic tax	2,209	68
Overstatement in prior year's income tax	14,998	10,951
10% surtax on undistributed earnings	2,187,695	1,502,501
Other	<u>(309)</u>	<u>(46)</u>
Total	<u><b>\$ 2,223,487</b></u>	<u><b>1,535,907</b></u>

(Continued)

**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

- (ii) Deferred tax assets and liabilities
- 1) Unrecognized deferred income tax assets

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Deductible temporary differences	\$ -	91
Net operating loss carry forwards	843,606	7,904,066
Decrease of investment tax credit	-	2,122
	<b>\$ 843,606</b>	<b>7,906,279</b>

The ROC Income Tax Act allows tax losses, as assessed by the tax authorities, to offset taxable income over a period of ten years for local tax reporting purposes. The aforementioned tax losses are not recognized as deferred tax assets as the Group estimates that the taxable income in the future will not be sufficient for covering temporary differences.

As of December 31, 2018, under ROC Income Tax, the unused loss carry forward benefits available to the Taiwan companies of the Group were as follows:

<b>Year</b>	<b>Unused loss carry forward</b>	<b>Expiry year</b>
2012	\$ 511,687	2022
2013	3,704,714	2023
Total	<b>\$ 4,216,401</b>	

The subsidiary in China follows the Enterprise Income Tax Law of the People's Republic of China. According to the law, the losses suffered by an enterprise during a taxable year is allowed to be carried forward and made up by the income in subsequent years; however, the carry-forward period may not exceed 5 years. The expiration date and the amount could be carried forward were as follows:

<b>Year</b>	<b>Unused loss carry forward</b>	<b>Expiry year</b>
2017	<b>\$ 1,302</b>	2022

(Continued)

**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

2) Recognized deferred tax liabilities and assets

The changes in recognized deferred tax assets and liabilities in 2018 and 2017 were as follows:

Deferred tax assets :

	<b>Operating loss carry forwards</b>	<b>Others</b>	<b>Total</b>
<b>Balance as of January 1, 2018</b>	\$ 297,195	625,364	922,559
Recognized in profit or loss	(201,406)	128,655	(72,751)
Recognized in other comprehensive income	-	3,619	3,619
Adjustment in tax rate recognized in profit or loss	(95,789)	106,930	11,141
Adjustment in tax rate recognized in other comprehensive income	-	2,571	2,571
Exchange differences on translation of foreign financial statements	-	172	172
<b>Balance as of December 31, 2018</b>	<b>\$ -</b>	<b>867,311</b>	<b>867,311</b>
<b>Balance as of January 1, 2017</b>	\$ 846,158	30,154	876,312
Recognized in profit or loss	(548,963)	581,503	32,540
Recognized in other comprehensive income	-	14,203	14,203
Exchange differences on translation of foreign financial statements	-	(496)	(496)
<b>Balance as of December 31, 2017</b>	<b>\$ 297,195</b>	<b>625,364</b>	<b>922,559</b>

Deferred tax liabilities :

	<b>Unrealized gains (losses) on available-for- sale financial assets</b>	<b>Unrealized foreign exchange gain</b>	<b>Others</b>	<b>Total</b>
<b>Balance as of January 1, 2018</b>	\$ -	63,132	567	63,699
Recognized in profit or loss	-	(74,273)	40	(74,233)
Adjustment in tax rate recognized in profit or loss	-	11,141	-	11,141
Exchange differences on translation of foreign financial statements	-	-	18	18
<b>Balance as of December 31, 2018</b>	<b>\$ -</b>	<b>-</b>	<b>625</b>	<b>625</b>
<b>Balance as of January 1, 2017</b>	\$ 1,602,346	28,914	664	1,631,924
Recognized in profit or loss	-	34,218	(49)	34,169
Recognized in other comprehensive income	(1,602,346)	-	-	(1,602,346)
Exchange differences on translation of foreign financial statements	-	-	(48)	(48)
<b>Balance as of December 31, 2017</b>	<b>\$ -</b>	<b>63,132</b>	<b>567</b>	<b>63,699</b>

(iii) The Company's tax returns have been examined by the ROC tax authority through 2016.

(Continued)

**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(o) Capital and other equity

As of December 31, 2018 and 2017, the Group's government registered total authorized capital both amounted to \$300,000,000 with \$10 par value per share, the number of ordinary shares both were 30,000,000 thousand shares and total paid-up ordinary share amounted to \$31,032,389 and \$29,639,382 respectively. All issued shares were paid up upon issuance.

The movements of shares outstanding for the years ended December 31, 2018 and 2017 were as follows:

	(in thousand shares)	
	<u>Ordinary Shares</u>	
	<u>2018</u>	<u>2017</u>
Balance as of January 1,	2,963,938	2,748,566
Conversion of convertible bonds	73,284	215,372
Conversion of certificates of bonds-to-share	22,396	-
Exercise of employees shares options	<u>43,621</u>	<u>-</u>
Balance as of December 31,	<u><b>3,103,239</b></u>	<u><b>2,963,938</b></u>

(i) Ordinary Share

For the years ended December 31, 2018 and 2017, the overseas convertible bondholders exercised some of their conversion rights and the Company issued 73,284 thousand and 215,372 thousand ordinary shares at a par value which totaled \$732,839 and \$2,153,724, respectively. The process for the registration had been completed.

In addition, 22,396 thousand shares of certificates of entitlement, which totaled \$223,958, had been issued as of December 31, 2017; all certificates of entitlement had been transferred to ordinary shares, and the related process for the registration had been completed in the first quarter of 2018.

On November 12 and August 10, 2018, the Company's board of directors approved to issue the Company's ordinary shares deriving from the exercise of employee share options. The Company had issued 1,819 thousand and 41,802 thousand ordinary shares at par value, with the issuing prices of \$34.3 and \$33.1 per share, which totaled \$436,210. All issued shares were paid up upon issuance and the related process for registration had been completed.

For the fourth quarter of 2018, the Company's ordinary shares were derived from the exercise of employee share options. Accordingly, the Company had issued 196 thousand ordinary shares, at issuing prices of \$33.1 per share, which totaled \$6,488, which was recognized as advance receipts for share capital as of December 31, 2018.

(Continued)

**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(ii) Capital surplus

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Employee stock option plans	\$ 2,844,690	2,127,034
Premium from the issuance of stock	30,712,310	25,150,157
Change in equity of associates accounted for using equity method	5	-
	<b>\$ 33,557,005</b>	<b>27,277,191</b>

According to the R.O.C. Company Act, capital surplus can only be used to offset a deficit, and only the realized capital surplus can be used to increase the common stock or be distributed as cash dividends. The aforementioned realized capital surplus includes capital surplus resulting from premium on issuance of capital stock and earnings from donated assets received. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, capital increases by transferring capital surplus in excess of par value should not exceed 10% of the total common stock outstanding.

(iii) Retain earning

According to the Company's Articles of Incorporation, the Company's annual net profit, after providing for income tax and covering the losses of previous years, is first set aside for legal reserve at the rate of 10% thereof until the accumulated balance of legal reserve equals the total issued capital and any special reserves pursuant to relevant laws and regulations. The remainder, plus the undistributed earnings of the previous years, are distributed or left undistributed for business purposes according to the resolution of the stockholders' dividend distribution plan, which are initially proposed by the board of directors and adopted by the shareholders in the annual stockholders' meeting.

As it belongs to a highly capital intensive industry with strong growth potential, the Company adopts a dividend distribution policy which is in line with its plans for product line expansion and the demand of fund. This policy requires that the distribution of cash dividends shall be equal to at least fifty percent (50%) of the Company's total dividend distribution every year.

1) Legal reserve

In accordance with the ROC Company Act, 10% of net income should be set aside as legal reserve, until it is equal to share capital. When the Group incurs no loss, it may, in pursuant to a resolution to be adopted by a shareholders' meeting, distribute its legal reserve by issuing new shares or by cash. Only the portion of legal reserve which exceeds 25 percent of the paid-in capital may be distributed.

(Continued)

**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

2) Special Reserve

In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, a portion of current-period earnings and undistributed prior-period earnings shall be reclassified as special earnings reserve during earnings distribution. The amount to be reclassified should equal the current-period total net reduction of other shareholders' equity. Similarly, a portion of undistributed prior-period earnings shall be reclassified as special earnings reserve (and does not qualify for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior periods. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions.

3) Earnings distribution

Earnings distribution for 2017 and 2016 was approved in the general meeting of shareholders held on May 24, 2018 and May 26, 2017, respectively. The relevant dividend distributions to shareholders were as follows:

	<b>For the year ended December 31, 2017</b>	
	<b>Dividends per share</b>	<b>Amount</b>
Dividends attributable to ordinary shareholders:		
Cash dividends	\$ 3.51	<b>10,879,288</b>
	<b>For the year ended December 31, 2016</b>	
	<b>Dividends per share</b>	<b>Amount</b>
Dividends attributable to ordinary shareholders:		
Cash dividends	\$ 1.50	<b>4,122,848</b>

(iv) Treasury shares

The Company repurchased shares from the securities exchange market based on section 28(2) of the Securities and Exchange Act and the movement in treasury shares were as follows:

	Reasons for repurchase of shares					
	Transferring to employees		Protecting the Company's integrity and shareholders' equity		Total	
	thousand shares	Amount	thousand shares	Amount	thousand shares	Amount
Balance as of January 1, 2018	-	\$ -	-	-	-	-
Repurchase during 2018	20,000	1,146,932	30,445	1,635,743	50,445	2,782,675
Balance as of December 31, 2018	20,000	\$ 1,146,932	30,445	1,635,743	50,445	2,782,675

(Continued)

## NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

In accordance with Securities and Exchange Act requirements as stated above, the number of shares repurchased should not exceed 10 percent of all shares outstanding. Also, the value of the repurchased shares should not exceed the sum of the Company's retained earnings, share premium, and realized capital reserves. As of September 30, 2018, the Company could repurchase no more than 310,142 shares, with a total value of no more than \$127,955,392. As of the same date, the Company had not yet repurchased any shares.

In accordance with the requirements of Securities and Exchange Act, treasury shares held by the Company should not be pledged, and do not hold any shareholder rights before their transfer.

As of December 31, 2017, the Company's subsidiary, Pei Jen Co., Ltd., had already sold all of shares of the Company, at the Company's average market price per share. The Company recognized a deduction of capital surplus of \$4,331 due to the disposal price being lower than the book value of treasury shares, then recognized the remaining deduction of retained earnings of \$283,808 after debiting all the capital surplus.

(v) Other equity (net of tax)

	<b>Exchange differences on translation of foreign financial statements</b>	<b>Unrealized losses from financial assets measured at fair value through other comprehensive income</b>	<b>Total</b>
Balance as of January 1, 2018	\$ (39,163)	-	
Exchange differences on translation of foreign financial statements, net of tax	(140,573)	-	(140,573)
Unrealized losses from financial of assets measured at fair value through other comprehensive income, associates accounted for using equity method	-	(94,098)	(94,098)
Balance as of December 31, 2018	<u>\$ (179,736)</u>	<u>(94,098)</u>	<u>(273,834)</u>
	<b>Exchange differences on translation of foreign financial statements</b>	<b>Unrealized gains (losses) on available- for-sale financial assets</b>	<b>Total</b>
Balance as of January 1, 2017	\$ (16,846)	7,805,947	7,789,101
Exchange differences on translation of foreign financial statements, net of tax	(22,317)	-	(22,317)
Unrealized gains (losses) on available for sale financial assets	-	(7,805,947)	(7,805,947)
Balance as of December 31, 2017	<u>\$ (39,163)</u>	<u>-</u>	<u>(39,163)</u>

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(p) Share-based payment

The Group has issued stock options under the employee stock option plan (ESOP) as follows:

	<b>The 7th batch of Employee Stock Option Plan</b>	<b>The 8th batch of Employee Stock Option Plan</b>	<b>The 9th batch of Employee Stock Option Plan</b>
Grant date	2011.03.21	2016.5.10	2016.8.11
Grant unit	70,000	97,500	2,500
Exercise price (Notes 1-7)	14.6	35.3	35.5
Deal period	8 years	8years	8years
Vested Conditions	Duration of two years duration and at certain proportion	Duration of two years duration and at certain proportion	Duration of two years duration and at certain proportion

Note 1: The Company increased its capital through carrying out a private placement of ordinary shares in 2011, 2012 and 2013. As a result, the exercise prices of the 7th batch of the employee stock option plan was adjusted to \$6.0 dollars, \$5.1 dollars and \$4.3 dollars, respectively, in accordance with the offering and exercising terms and conditions of ESOP.

Note 2: The Company reduced its capital in 2014. As a result, the exercise price of the 7th batch of the employee stock option plan was adjusted to \$43 dollars in accordance with the offering and exercising terms and conditions of ESOP.

Note 3: The Company approved to distribute its cash dividends in 2015. As a result, the exercise price of the 7th batch of the employee stock option plan was adjusted to \$41.5 dollars in accordance with the offering and exercising terms and conditions of ESOP.

Note 4: The Company increased its capital through issuing of shares in 2016. As a result, the exercise price of the 7th batch of the employee stock option plan was adjusted to \$40.9 dollars in accordance with the offering and exercising terms and conditions of ESOP.

Note 5: The Company approved to distribute its cash dividends in 2016. As a result, the exercise price of the 7th and 8th batch of the employee stock option plan were adjusted to \$ 38 dollars and \$ 35.3 dollars, respectively, in accordance with the offering and exercising terms and conditions of ESOP.

Note 6: The Company approved to distribute its cash dividends in 2017. As a result, the exercise price of the 7th, 8th and 9th batch of the employee stock option plan were adjusted to \$36.9 dollars, \$34.3 dollars and \$35.5 dollars, respectively, in accordance with the offering and exercising terms and conditions of ESOP.

Note 7: The Company approved to distribute its cash dividends in 2018. As a result, the exercise price of the 7th, 8th and 9th batch of the employee stock option plan were adjusted to \$35.6 dollars, \$33.1 dollars and \$34.3 dollars, respectively, in accordance with the offering and exercising terms and conditions of ESOP.

(i) Options granted were priced using the Black-Scholes pricing model and the inputs to the model were as follows:

	<b>The 7th batch of Employee Stock Option Plan</b>	<b>The 8th batch of Employee Stock Option Plan</b>	<b>The 9th batch of Employee Stock Option Plan</b>	<b>2012 Employee Stock Option Plan of Piece Makers</b>
Dividend yield	- %	- %	- %	- %
Expected volatility	53.79 %	55.47 %	45.80 %	62.10 %
Risk-free rate	0.9307 %	0.5728 %	0.529 %	1.0300 %
Fair value of unit stock option (dollar)	\$ 5.91	18.77	15.30	5.375

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
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Expected volatility is based on weighted average of historical volatility, and it is adjusted accordingly when there is additional market information about the volatility. The expected term of stock option is based on each of the Group's issued stock option plans. Expected dividend and risk-free rate is determined based on government bonds.

(ii) Relevant information of employee stock option plans

The Company:

	<b>For the years ended December 31,</b>			
	<b>2018</b>		<b>2017</b>	
	<b>Weighted- average exercise (price TWD)</b>	<b>Number of options (Units)</b>	<b>Weighted- average exercise (price TWD)</b>	<b>Number of options (Units)</b>
Outstanding at January 1,	\$ 35.34	155,374	36.37	162,030
Options granted	33.12	(43,817)	-	-
Options forfeited	33.99	(2,175)	35.09	(6,656)
Outstanding at December 31,	34.49	<b>109,382</b>	35.34	<b>155,374</b>
Options exercisable at December 31,	35.50	<b>62,992</b>	36.90	<b>61,060</b>

Further details of the stock options of the Group were as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Range of exercise price (dollar)	33.1~35.6	34.30~36.90
Weighted average of remaining option plan period (year)	0.22~5.61	1.22~6.61

Piece Makers Technology Corp. (Note):

	<b>For the year ended December 31,</b>	
	<b>2017</b>	
	<b>Weighted- average exercise (price TWD)</b>	<b>Number of options (Units)</b>
Outstanding as of January 1,	10.00	10
Options exercised	10.00	(5)
Outstanding as of December 31,	10.00	<b>5</b>
Options exercisable as of December 31,	10.00	<b>10</b>

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

Further details of the stock options of the Group were as follows:

	<b>December 31, 2017</b>
Range of exercise price (dollar)	10.00~36.90
Weighted average of remaining option plan period (year)	1.22~6.61

Note: The details of the stock options of Piece Makers was excluded from the consolidated financial statements due to the Company's disposal of its entire shares in Piece Makers on February 26, 2018, resulting in its loss of control over Piece Makers, which was no longer a subsidiary of the Company.

(iii) Compensation cost

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Compensation cost arising from share options granted to employees	<b>\$ 717,656</b>	<b>459,573</b>

(q) Earnings per share

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>Basic earnings per share:</b>		
Net profit attributable to the Company	<b>\$ 39,361,625</b>	<b>40,281,927</b>
Weighted-average number of ordinary shares outstanding (basic)	3,074,181	2,806,025
Basic earnings per share (dollar)	<b>\$ 12.80</b>	<b>14.36</b>
<b>Diluted earnings per share:</b>		
Net profit attributable to the Company (basic)	<b>\$ 39,361,625</b>	<b>40,281,914</b>
Weighted-average number of ordinary shares (basic)	3,074,181	2,806,025
Effect of employee share option	69,935	68,133
Effect of employee remuneration	34,252	19,564
Weighted-average number of ordinary shares (diluted)	3,178,368	2,893,722
Diluted earnings per share (dollar)	<b>\$ 12.38</b>	<b>13.92</b>

Because of the convertible bonds issued by the Company in 2018 were anti-dilutive, no diluted earnings per share were calculated.

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

## (r) Revenue from contracts with customers

## (i) Disaggregation of revenue

	For the years ended December 31, 2018				
	Japanese department	American department	Manufacturing department	Other department	Total
Primary geographic markets:					
Taiwan	\$ 9,345	198,484	37,938,624	131,182	38,277,635
Turkey	-	-	-	426,437	426,437
Japan	2,058,880	-	-	1,609	2,060,489
Malaysia	72	935,730	500,316	12,610	1,448,728
Korea	319,244	331	518,720	1,715	840,010
China	1,705,271	8,485,532	25,193,509	1,981,892	37,366,204
USA	-	297,093	295,393	-	592,486
Thailand	100,300	79,519	1,172,239	-	1,352,058
Other countries	<u>259,624</u>	<u>82,711</u>	<u>300,171</u>	<u>1,715,251</u>	<u>2,357,757</u>
	<u>\$ 4,452,736</u>	<u>10,079,400</u>	<u>65,918,972</u>	<u>4,270,696</u>	<u>84,721,804</u>
Major products line:					
Dynamic Random Access Memory (DRAM)	\$ 4,452,736	10,078,313	65,777,291	4,270,696	84,579,036
Other	-	1,087	141,681	-	142,768
	<u>\$ 4,452,736</u>	<u>10,079,400</u>	<u>65,918,972</u>	<u>4,270,696</u>	<u>84,721,804</u>

For details on revenue for the year ended December 31, 2017, please refer to note 6(s).

## (i) Contract balances

	December 31, 2018	January 1, 2018
Notes receivable from operating activities	\$ 481	3,577
Accounts receivable	9,772,558	8,530,890
Less: allowance for impairment	<u>(9,298)</u>	<u>(8,859)</u>
Total	<u>\$ 9,763,741</u>	<u>8,525,608</u>

For details on notes and accounts receivable, and loss allowance for impairment, please refer to note 6(c).

## (s) Revenue

	For the year ended December 31, 2017
Sales of goods	\$ 54,771,159
Others	<u>147,065</u>
	<u>\$ 54,918,224</u>

For details of revenue for the year ended December 31, 2018, please refer to note 6(r).

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(t) Remuneration to employees

According to the Company's articles of incorporation, if the Company makes a profit, it should appropriate for employee remuneration to employees which is calculated based on 1% to 12% of the Company's net income before tax before deduction of employee remuneration to employees and after offsetting accumulated deficits, if any, should be distributed as employee remuneration to employees. Employees who are entitled to receive the above mentioned employee remuneration to employees, in shares or cash, include the employees of the subsidiaries of the Company who meet certain specific requirements.

The estimated employee remuneration which was charged to profit or loss under operating costs or expense amounted to \$1,740,000 and \$1,364,013 for the years ended December 31, 2018 and 2017, respectively. This employee remuneration to employees was estimated based on the Company's net income before tax before deducting any employee remuneration, according to the earnings allocation method as stated under the Company's articles of association, the related information would be available at the Market Observation Post System website.

There is no difference between the estimated employee remuneration which was stated in the financial statements for the year ended 2018, and the amount approved by the Company's board of directors.

The difference between the estimated employee remuneration, which was stated in the financial statement for the year ended December 31, 2017, and the amount of actual distributions in 2018, amounted to \$1,362,183. The Company recognized difference of \$1,830 in profit or loss in 2018.

(u) Non-operating income and expenses

(i) Other incomes

	<b>For the years ended</b>	
	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
Interest income		
Bank deposits and short-term notes	\$ 910,806	240,615
Financial lease	119,578	150,240
Dividend income	-	2,216
	<b>\$ 1,030,384</b>	<b>393,071</b>

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

## (ii) Other gains and losses

	<u>For the years ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Foreign exchange gains (losses)	\$ 1,180,313	(947,822)
Net loss on financial liabilities at fair value through profit or loss	(281,107)	(7,981,043)
Gain on disposal of available-for-sale financial assets	-	32,093,172
Gain on disposal of lease payable	-	63,542
Reversal of impairment loss (impairment loss) on non-financial assets	109,745	(488,988)
Gain on disposals of a subsidiary	497	-
Gain on disposals of property, plant and equipment	16,859	3,089
Others	126,220	363,871
	<u>\$ 1,152,527</u>	<u>23,105,821</u>

## (iii) Finance costs

	<u>For the years ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Bank loans	\$ 26	352,567
Financing from entities with significant influence over the Group	-	69,898
Amortization interest of overseas convertible bond	5,105	175,186
Financing from other related parties	419	23,025
Lease payments	-	2,700
Others	194	186
Less: Capitalized of interest	-	(163,901)
	<u>\$ 5,744</u>	<u>459,661</u>

## (v) Reclassification adjustment of other comprehensive income

	<u>For the year ended December 31, 2017</u>
Available- for-sale financial assets	
Net change in fair value	\$ 24,300,300
Net change in fair value reclassified to profit or loss	(32,106,247)
Net change in fair value recognized in other comprehensive (loss) income	<u>\$ (7,805,947)</u>

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
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(w) Financial instruments

(i) Credit risk

1) Exposure to credit risk

The carrying amount of financial assets represents the maximum exposure to credit risk.

2) Concentration of credit risk

The majority of the Group's customers are mostly those in the high-tech industry. In order to reduce accounts receivable credit risk, the Group continuously assesses the financial condition of its customers. If it is necessary, the Group will ask for guarantees or warranties. The Group still regularly assesses the likelihood of collectability of accounts receivable and sets aside allowance for bad debts, based on the result of management's evaluation of the overall amounts of bad debts.

As of December 31, 2018 and 2017, the Group's major customers consisted of four and five customers which accounted for 39.31% and 50.72%, respectively, of accounts receivable so that management believes the concentration of credit risk.

3) Credit risk of receivables

For credit risk exposure of notes and accounts receivables, please refer to note 6(c).

Other financial assets measured at amortized cost includes other receivables, time deposits and refundable deposits (previously classified as other receivables, cash and cash equivalents and other non-current assets on December 31, 2017).

Considering that the Group deals only with other external parties with good credit standing and with the above investment grade financial institutions, all of the above financial assets are considered to have low credit risk.

As of December 31, 2018, no allowance for impairment was provided because there was no indication of credit-impaired for the 12-month ECL or lifetime ECL allowance for other financial assets measured at amortized cost.

(ii) Liquidity risk

The following are the remaining contractual maturities at the end of the reporting period of financial liabilities, including estimated interest payments but excluding the impact of netting agreements:

	<u>Carrying amount</u>	<u>Contractual cash flow</u>	<u>Within 6 months</u>	<u>6-12months</u>	<u>1-2years</u>	<u>2-5years</u>	<u>Over 5 years</u>
<b>December 31, 2018</b>							
Non-derivative financial liabilities							
Financing from other related parties	\$ 7,625	8,046	211	7,835	-	-	-
Accounts payable (including related parties)	4,579,702	4,579,702	4,579,702	-	-	-	-
Other payables (including related parties)	<u>9,718,109</u>	<u>9,718,109</u>	<u>9,718,109</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 14,305,436</u>	<u>14,305,857</u>	<u>14,298,022</u>	<u>7,835</u>	<u>-</u>	<u>-</u>	<u>-</u>

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

	<u>Carrying amount</u>	<u>Contractual cash flow</u>	<u>Within 6 months</u>	<u>6-12months</u>	<u>1-2years</u>	<u>2-5years</u>	<u>Over 5 years</u>
<b>December 31, 2017</b>							
Derivative financial liabilities							
Derivative instruments not used for hedging	\$ 382,295	382,295	382,295	-	-	-	-
Embedded derivative-convertible bonds	1,856,146	-	-	-	-	-	-
subtotal	<u>2,238,441</u>	<u>382,295</u>	<u>382,295</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Non-derivative financial liabilities							
Accounts payable (including related parties)	3,372,733	3,372,733	3,372,733	-	-	-	-
Financing from other related parties	8,416	8,913	249	8,665	-	-	-
Other payables (including related parties)	7,355,168	-	-	-	-	-	-
Bonds payable	3,286,711	3,759,096	-	-	-	3,759,096	-
subtotal	<u>14,023,028</u>	<u>7,140,742</u>	<u>3,372,982</u>	<u>8,665</u>	<u>-</u>	<u>3,759,096</u>	<u>-</u>
Total	<u>\$ 16,261,469</u>	<u>7,523,037</u>	<u>3,755,277</u>	<u>8,665</u>	<u>-</u>	<u>3,759,096</u>	<u>-</u>

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

(iii) Currency risk

1) Exposure to currency risk

The Group's significant exposure to foreign currency risk was as follows:

	<u>December 31, 2018</u>			<u>December 31, 2017</u>		
	<u>Foreign currency (in thousands)</u>	<u>Exchange rate (dollars)</u>	<u>New Taiwan Dollars</u>	<u>Foreign currency (in thousands)</u>	<u>Exchange rate (dollars)</u>	<u>New Taiwan Dollars</u>
Financial assets:						
Monetary items						
USD	\$ 1,565,831	30.733	48,122,684	1,323,649	29.848	39,508,275
JPY	3,219,721	0.2772	892,507	1,542,231	0.2641	407,303
EUR	7	35.1670	246	25	35.6081	890
Financial liabilities:						
Monetary items						
USD	135,655	30.733	4,169,085	587,405	29.848	17,532,864
JPY	2,644,019	0.2772	732,922	1,156,636	0.2641	305,468
EUR	4,387	35.1670	154,278	1,567	35.6081	55,798

2) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the foreign currency exchange fluctuations on cash and cash equivalents, accounts receivable, accounts payable, and other payables (including related parties) which are denominated in different foreign currencies. A 1% depreciation of the TWD against the USD, JPY, EUR and as of December 31, 2018 and 2017 would have increased the net income before tax by \$439,592 and \$220,223 for the years ended December 31, 2018 and 2017, respectively. This analysis assumes that all other variables remain constant and ignores any impact of forecasted sales and purchases. The analysis is performed on the same basis.

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
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Since the Group has many kinds of functional currency, the information on foreign exchange loss on monetary items is disclosed by total amount. For the nine months ended December 31, 2018 and 2017, foreign exchange gain (loss) (including realized and unrealized portions) amounted to \$1,180,313 and \$(947,822), respectively.

(iv) interest rate analysis

Please refer to the notes on liquidity risk management and interest rate exposure of the Group's financial liabilities.

The following sensitivity analysis is based on the exposure to the interest rate risk of derivative and non-derivative financial instruments on the reporting date. Regarding liabilities with variable interest rates, the analysis is based on the assumption that the amount of liabilities outstanding at the reporting date was outstanding throughout the year. The rate of change is expressed as the interest rate increases by 1% when reporting to management internally, which also represents the Group management's assessment of the reasonably possible interest rate change.

If the interest rate had increased by 1 basis points, the Group's net income would have decreased by \$76 and \$84 for the years ended December 31, 2018 and 2017 with all other variable factors remaining constant. This is mainly due to the Group's borrowing at variable rates and investment in variable-rate bills.

(v) Fair value of financial instruments

1) Types and fair value of financial instruments

The fair value of financial liabilities was measured at recurring fair value. The carrying amount and fair value of the Group's financial assets and liabilities, including the information on fair value hierarchy were as follows; however, except as described in the following paragraphs, for financial instruments not measured at fair value whose carrying amount is reasonably close to the fair value, disclosure of fair value information is not required :

	Book Value	December 31, 2018			Total
		Fair Value			
		Level 1	Level 2	Level 3	
Financial assets measured at amortized cost					
Cash and cash equivalents	\$ 57,384,006	-	-	-	-
Notes and accounts receivable, net	9,763,741	-	-	-	-
Other receivables	1,145,510	-	-	-	-
Lease payments receivable (including current portion)	1,043,501	-	-	-	-
Total	<u>\$ 69,336,758</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial liabilities measured at amortized cost :					
Accounts payable (including related parties)	\$ 4,579,702	-	-	-	-
Other payables (including related parties)	9,725,734	-	-	-	-
Total	<u>\$ 14,305,436</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

(Continued)

## NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

	December 31, 2017				
	Book Value	Fair Value			Total
		Level 1	Level 2	Level 3	
Loans and receivables					
Cash and cash equivalents	\$ 33,768,677	-	-	-	-
Notes and accounts receivable, net	8,525,608	-	-	-	-
Other receivables	11,291,664	-	-	-	-
Lease payments receivable (including current portion)	<u>1,353,253</u>	-	-	-	-
Total	<u>\$ 54,939,202</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial liabilities at fair value through profit or loss					
Derivative financial liabilities	\$ 2,238,441	-	-	-	-
Financial liabilities measured at amortized cost					
Accounts payable (including related parties)	3,372,733	-	-	-	-
Other payables (including related parties)	7,363,584	-	-	-	-
Bonds payable	<u>3,286,711</u>	<u>-</u>	<u>3,405,337</u>	<u>-</u>	<u>3,405,337</u>
Subtotal	<u>14,023,028</u>	<u>-</u>	<u>3,405,337</u>	<u>-</u>	<u>3,405,337</u>
Total	<u>\$ 16,261,469</u>	<u>-</u>	<u>3,405,337</u>	<u>-</u>	<u>3,405,337</u>

2) Valuation techniques for financial instruments not measured at fair value

The Group's valuation techniques and assumptions used for financial instruments not measured at fair value are as follows:

a) Financial assets and liabilities measured at amortized cost.

If there is quoted price generated by transactions, the recent transaction price and quoted price data is used as the basis for fair value measurement.

However, if no quoted prices are available, the fair value is determined by discounted cash flows, using estimation and assumptions under existing market conditions which are obtainable by the Company.

3) Valuation techniques used in fair value determination of financial instruments

a) Non derivative financial instruments

If the quoted price is available on an active market, the market price is used as the fair value.

Fair value of the Group's financial instruments with no active market is determined as follows:

The fair value of investment in debt securities with no active market and financial assets carried at cost was estimated by Cox-Ross-Rubinstein of convertible bond and Binomial model of European call option. The key assumption for stock volatility was estimated by evaluating the stock volatility of same industry.

(Continued)

## NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

b) Derivative financial instruments

Is based on the evaluation model accepted by the market users, such as the revised constitution and the option model. Forward foreign exchange contracts are usually based on the current forward exchange rate evaluation.

- 4) There were no transfers from financial assets for the years ended December 31, 2018 and 2017.

(x) Financial risk management

(i) Nature and extent

The Group has the following exposure risks for holding certain financial instruments:

- 1) Credit risk
- 2) Liquidity risk
- 3) Market risk

The following further discloses detailed information about exposure risk arising from the aforementioned risks and the Group's objectives, policies and processes for measuring and managing the above mentioned risks. For more disclosures about the quantitative effects of these exposure risks, please refer to the respective notes in the accompanying consolidated financial statements.

(ii) Framework of risk management

The Group's board of directors has overall responsibility for the establishment and oversight of the risk management framework.

The Group's risk management policies are established to identify and analyze the risks being faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through their training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's board of directors oversees how management monitors compliance with the risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's board of directors is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the board of directors.

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(iii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, bank deposits and investments.

1) Accounts receivable

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk.

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases, bank references. Purchase limits are established for each customer, which represent the maximum open amount without requiring approval from the Group; these limits are reviewed quarterly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group established an impairment allowance that represents its estimate of incurred losses in respect of accounts receivable and other investments. Major components of this impairment allowance are specific loss component that is related to individually significant exposure and collective loss component where the loss is incurred but not identified. The collective component is based on historical payment experience of similar financial assets.

2) Investment

The credit risk exposure in the bank deposits and other financial instruments are measured and monitored by the Group's finance department. Considering that the Company deals only with banks and other external parties with good credit standing and with above investment grade financial institutions, corporate organization and government agencies, management is not expecting non-compliance issues and significant credit risk.

(iv) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Also, the Group's approach to managing liquidity is to ensure, as much as possible, that it will always have sufficient current funds to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

(Continued)

**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES****Notes to the Consolidated Financial Statements**

The Group uses activity-based costing to cost its products and services, which assists it in monitoring cash flow requirements and optimizing its cash return on investments. The Group aims to maintain the level of its cash and cash equivalents and other highly marketable debt investments at an amount in excess of expected cash flows on financial liabilities (other than trade payables) over the succeeding 60 days. The Group also monitors the level of expected cash outflows on trade and other payables. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. The Group has unused bank facilities for \$15,337,000 as of December 31, 2018.

(v) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Group buys and sells derivatives in order to reduce market risks. All these transactions are made in accordance with the risk management policy.

1) Currency risk

The Group's exposure to currency risk is on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group, primarily the New Taiwan Dollars (NTD). The currencies used in these transactions are denominated in NTD, USD, JPY, and EUR.

The interest is denominated in the currency used in the borrowings. Generally, borrowings are primarily the NTD. Also, the Group may apply for loans in other currency for operating purpose.

2) Interest rate risk

The Group adopts a policy of entering into financial instrument transaction that fixes interest rate, such as interest rate swaps, by predicting the trend of future interest rate. All of the Group's long-term loans bear floating interest rates. However, as the range of fluctuation of the interest rates during the term of agreements is acceptable, the Group believes that their interest rate risk need not be hedged.

3) Other market value risk

The Group is only expecting to meet the consumption and sales demand so that the Group did not sign commodity contracts without net settled.

(Continued)

**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

- (y) The investing and financing activities on non-cash transactions

The Group's investing and financing activities on non-cash transactions for the years ended December 31, 2018 and 2017 were as follows:

Investing and financing activities which did not have any impact on the current cash flows:

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Conversion of convertible bonds to ordinary shares	<b>\$ 3,240,750</b>	<b>10,755,348</b>

- (z) Capital management

The Group's policy is to maintain a strong capital base in order to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of the Group's equity.

The Group may adjust the payment of dividend to shareholders, return cash to shareholders through capital reduction, issue new shares or sell held for sale assets in order to pay off its liabilities. Likewise, the Group monitors its debt-to-capital ratio which serves as the basis to control capital, the same practice as the other companies in the industry. The Group's debt-to-capital ratio on reporting date was as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Total Liabilities	\$ 17,678,515	18,664,114
Deduct: cash and cash equivalents	(57,384,006)	(33,768,677)
Net liabilities	<b>\$ (39,705,491)</b>	<b>(15,104,563)</b>
Total equity	<b>\$ 164,907,298</b>	<b>132,115,188</b>
Debt-to-capital ratio	<b>(24.08)%</b>	<b>(11.43)%</b>

The Group has not changed its capital management strategy as of December 31, 2018.

**(7) Related-party transactions:**

- (a) Names and relationship with related parties

The following are entities that have had transactions with related party during the periods covered in the consolidated financial statements.

<b>Name of related party</b>	<b>Relationship with the Group</b>
Nan Ya Photonics Incorporation	The Group's other related parties
Formosa Technologies (Nanjing) Corporation	The Group's other related parties
Nan Ya Printed Circuit Board Corp.	The Group's other related parties

(Continued)

**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

<u>Name of related party</u>	<u>Relationship with the Group</u>
Mai Laio Harbor Administration Corp.	The Group's other related parties
Formosa Heavy Industries Corporation	The Group's other related parties
Formosa Sumco Technology Corporation	The Group's other related parties
Formosa Advanced Technologies Co., Ltd.	The Group's associates (Note)
Formosa Technologies Corporation	The Group's other related parties
Formosa Biomedical Technology Corp.	The Group's other related parties
Formosa Petrochemical Corporation	The Group's other related parties
Formosa Plastics Corporation	The Group's other related parties
Formosa Heavy Industries Corp. (GZ) Ltd.	The Group's other related parties
Formosa Transportation (Ningbo) Corp.	The Group's other related parties
Formosa Waters Technology Co., Ltd.	The Group's other related parties
Formosa Chemicals & Fibre Corporation	The Group's other related parties
Nan Ya Plastics Corporation	The entity with significant influence over the Group

Note: FATC was the previous other related party of the Group. However, since the Company has significant influence over FATC, it became the Group's associates beginning July 25, 2018.

(b) Significant transactions with related parties

(i) Sales to related parties

<u>Relationship</u>	<u>Sales</u>	
	<u>For the years ended</u>	
	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
Other related parties	\$ <u>-</u>	<u>6,023</u>

The selling prices and collection terms for the sales to related parties above are not significantly different from those third party customers, and the normal credit term with the related parties above is due for collection on the 15th day of the month following the month of delivery of goods sold.

There is no collateral received among related parties accounts receivable. However, not bad debt provision is necessary based on the result of management's evaluation.

(Continued)

**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

## (ii) Purchase from related parties

<u>Relationship</u>	<u>Purchases</u>		<u>Accounts payable to related parties</u>	
	<u>For the years ended December 31,</u>		<u>December 31, 2018</u>	<u>December 31, 2017</u>
	<u>2018</u>	<u>2017</u>		
Entities with significant influence over the Group	\$ 77,917	52,746	5,626	4,750
Associates	5,390	-	-	-
Other related parties:				
Formosa Sumco Technology Corporation	1,729,352	1,375,540	322,068	290,134
Other related parties	<u>172,238</u>	<u>67,162</u>	<u>4,370</u>	<u>4,862</u>
	<u>\$ 1,984,897</u>	<u>1,495,448</u>	<u>332,064</u>	<u>299,746</u>

The terms and pricing of purchase transactions with related parties were not significantly different from those offered by other vendors. The payment terms ranged from one to two months, which were no different from the payment terms given by other vendors.

## (iii) Consigned out for processing

<u>Relationship</u>	<u>Amount</u>		<u>Other payables to related parties</u>	
	<u>For the years ended December 31,</u>		<u>December 31, 2018</u>	<u>December 31, 2017</u>
	<u>2018</u>	<u>2017</u>		
Associates	\$ 6,161,227	-	931,059	-
Other related parties:				
Formosa Advanced Technologies Co., Ltd	-	5,310,380	-	889,629
	<u>\$ 6,161,227</u>	<u>5,310,380</u>	<u>931,059</u>	<u>889,629</u>

The term of transactions with the related parties above is 60 days after the end of each month when processed consigned goods are received.

(Continued)

**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(iv) Financing from related parties

<u>Relationship</u>	<u>Finance costs</u>			
	<u>For the years ended December 31,</u>			
	<u>2018</u>		<u>2017</u>	
Entities with significant influence over the Group	\$	-		69,898
Other related parties:				
Nan Ya Printed Circuit Board Corp.		-		14,725
Formosa Heavy Industries Corp. (GZ) Ltd.		79		89
Formosa Transportation (Ningbo) Corp.		45		178
Formosa Technologies (Nanjing) Corporation		274		-
Formosa Heavy Industries Corporation		21		-
Other related parties		-		8,033
	\$	<u>419</u>		<u>92,923</u>

  

<u>Relationship</u>	<u>Other payables to related parties</u>			
	<u>Balance of borrowings</u>		<u>Interest payable</u>	
	<u>December 31,</u>	<u>December 31,</u>	<u>December 31,</u>	<u>December 31,</u>
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Other related parties :				
Formosa Heavy Industries Corp. (GZ) Ltd.	\$ -	2,282	-	34
Formosa Transportation (Ningbo) Corp.	-	5,934	-	162
Formosa Technologies (Nanjing) Corporation	7,625	-	156	-
Formosa Heavy Industries Corporation	-	200	-	12
Other related parties	-	-	-	-
	\$	<u>7,625</u>	<u>8,416</u>	<u>156</u>
				<u>208</u>

(v) Property transactionsg

1) Acquisition of equipment

<u>Relationship</u>	<u>Acquisition price</u>		<u>Other payables to related parties</u>	
	<u>For the years ended</u>		<u>December 31,</u>	<u>December 31,</u>
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Entities with significant influence over the Group	\$ 391	739,269	-	84,472
Other related parties	8,017	214,025	104	83,129
Total	\$ <u>8,408</u>	<u>953,294</u>	<u>104</u>	<u>167,601</u>

(Continued)

**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

2) Acquisition of Financial Assets

		For the year ended December 31, 2018		
Relationship	Account	Number of shares (in thousands)	Item of transaction	Acquisition price
Associates	Investments accounted for using equity method	84,022	Shares of stock of Formosa Advanced Technologies Co., Ltd.	\$ <u>3,049,999</u>

(vi) Lease contracts

	For the years ended December 31,	
	2018	2017
Entities with significant influence over the Group	\$ <u>228,800</u>	<u>213,509</u>

The rentals charged to the entities with significant influence over the Company are determined based on the local market prices, and rents are paid monthly.

(c) Key management personnel compensation

Key management personnel compensation comprised:

	For the years ended December 31,	
	2018	2017
Short-term employee benefits	\$ 81,043	53,095
Share-based payment	18,957	12,004
	\$ <u>100,000</u>	<u>65,099</u>

Please refer to Note 6(p) for the details of share-based payment.

**(8) Pledged assets:**

The Group's assets pledged to secure loans are as follows:

Pledged assets	Object	December 31, 2018	December 31, 2017
Other non-current assets	Research and development's plan	\$ -	<u>10</u>

(Continued)

**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

**(9) Commitments and contingencies:**

(a) Significant commitments

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Guarantees for importation goods provided by bank	\$ 1,035,000	595,000
Guarantees for project plan being undertaken with the Ministry of Economic Affairs provided by bank	-	33,440
Unused letters of credit	<u>419,639</u>	<u>113,261</u>
Total	<u><b>\$ 1,454,639</b></u>	<u><b>741,701</b></u>

(b) Contingent liabilities

- (i) In 2000, the Company was charged by Brazil's Ministry of Justice as being involved in the International Monopolies, which influences Brazil's DRAM market. Consequently, the Company, other large international companies and individuals are investigated at the same time. The Company has engaged counsels to properly handle it to ensure the Company's rights.
- (ii) In October 2016, Lone Star Silicon Innovations LLC (Lone Star) filed a lawsuit against Nanya Technology Corp. (Nanya) and two of its subsidiaries, Nanya Technology Corp., USA (NTC USA) and Nanya Technology Corp., Delaware (NTC Delaware), to the US District Court of East Texas for patent infringement. The lawsuit was handed over to the US District Court of Northern California in July 2017, wherein it was denied in January 2018. Therefore, Lone Star appealed to the US Court of Appeals for the Federal Circuit on the said matter. The case is still in progress. The Group has engaged lawyers to handle the case to ensure its rights.
- (iii) The original Joint Venture agreement signed by the Company, Micron Technology, Inc. and its related parties was terminated after Micron Semiconductor Co. completed its share-swap with Micron Technology Taiwan. Both parties had mutually agreed to sign a cooperation agreement, the details of the agreement were as follows:
- 1) The estimated cost for improving specific environmental safety and factory facilities in mutually operating period of joint venture agreement amounted to US\$5,403 ten thousands; the Company agreed to share the 50% portion of the total costs and accrued it as expense of \$850,000 (USD27,015 thousand) to other payable. The Company will share the cost based on the actual amounts at the appointed time. As of December 31, 2018, the payment amounting to \$27,000 (USD900 thousand) had been recognized by the Company.

(Continued)

**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

- 2) The Company agreed to share the 50% portion of the total losses for penalty, improving costs and suspending operation before the date of share-swap in the following two to five years due to an existing event of environmental safety and factory facilities which violated the laws.

**(10) Losses Due to Major Disasters: None**

**(11) Subsequent Events:**

During the period from January 1 to 11, 2019, the Company repurchased 19,691 thousand shares amounting to \$1,029,879 from securities exchange market in order to protect the its integrity and stockholders' equity , with a repurchase price ranging from \$50.60 dollars to \$54.97 dollars per share.

On February 27, 2019, the Company's board of directors approved to retire 50,136 thousand of treasury shares in order to protect the Company's integrity and stockholders' equity, resulting in the decrease of ordinary shares by \$501,360 with the same record date as the capital reduction.

On January 4, 2019, The Company had fully executed its investment in Nanya Technology International Ltd., a subsidiary of the Company, with a total amount of USD 1 billion, and remitted the remaining balance of \$20,707 (USD 670 thousands).

**(12) Other:**

A summary of current-period employee benefits, depreciation, and amortization, by function, is as follows:

	For the year ended December 31, 2018			For the year ended December 31, 2017		
	Cost of goods sold	Operating expenses	Total	Cost of goods sold	Operating expenses	Total
Employee benefits						
Salaries	3,945,782	2,367,753	6,313,535	3,473,249	1,967,571	5,440,820
Labor and health insurance	175,515	126,233	301,748	158,272	117,762	276,034
Pension expenses	92,607	63,441	156,048	87,708	55,421	143,129
Other personnel expenses	68,850	22,730	91,580	61,475	21,721	83,196
Depreciation expenses	11,827,103	156,163	11,983,266	8,357,226	71,806	8,429,032
Amortization expenses	97,298	-	97,298	141,088	6	141,094

(Continued)

**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**(13) Other disclosures:****(a) Information on significant transactions:**

The followings were the information on significant transactions required by the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” for the Group for the year ended December 31, 2018:

- (i) Loans to other parties: None  
(ii) Guarantees and endorsements for other parties: None  
(iii) Securities held at the reporting date (excluding investment in subsidiaries, associates and joint ventures):

(In Thousands of New Taiwan Dollars)

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Highest Percentage of ownership (%)	Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value		
The Company	Memoright (Cayman) Co., Ltd.	-	Financial assets measured at amortized cost and fair value through other comprehensive income	-	-	-	-	%	

**(iv) Information regarding purchase or sale of securities for the period exceeding \$300 million or 20% of the capital stock:**

(In Thousands of New Taiwan Dollars / Shares)

Name of company	Security type	Account	Counter party	Relationship	Beginning		Purchases		Sales			Ending		Note	
					Shares (in thousand)	Amount	Shares (in thousand)	Amount	Shares (in thousand)	Price	Cost	Gain (loss) on disposal	Shares (in thousand)		Amount
Formosa Advanced Technologies Co., Ltd.	Stocks	Investment accounted for using equity method	Formosa Advanced Technologies Co., Ltd.	Associates	-	-	84,022	3,049,999	-	-	-	-	84,022	3,006,603	Note 1
Nanya Technology International, Ltd.	Stocks	Investment accounted for using equity method	Nanya Technology International, Ltd.	Subsidiary	-	-	1	30,888,000	-	-	-	-	1	30,736,892	Note 2

Note 1: Refer to details of investments accounted for using equity method to Note 6(f).

Note 2: The transactions were written off in the consolidated financial statements.

- (v) Acquisition of individual real estate with amount exceeding \$300 million or 20% of the Company's paid-in capital: None  
(vi) Disposal of individual real estate with amount exceeding \$300 million or 20% of the Company's paid-in capital: None  
(vii) Related-party transaction for purchases and sales for which amounts exceeding \$100 million or 20% of the Company's paid-in capital:

(In Thousands of New Taiwan Dollars)

Name of company	Related party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		Note
			Purchase /Sale	Amount	Percentage of total purchases/sales	Payment terms	Unit price	Payment terms	Ending balance	Percentage of total notes/accounts receivable (payable)	
The Company	Nanya Technology Corp., U.S.A.	Subsidiary	(Sale)	(9,918,899)	(11.77)%	O/A 60-90Days	-	-	2,500,336	24.47%	(Note)
The Company	Nanya Technology Corp., H.K.	Subsidiary	(Sale)	(192,683)	(0.23)%	O/A 60-90Days	-	-	28,948	0.28%	(Note)
The Company	Nanya Technology Corp., Japan	Subsidiary	(Sale)	(4,297,141)	(5.10)%	O/A 180days	-	-	701,225	6.86%	(Note)
The Company	Nanya Technology Europe GmbH	Subsidiary	(Sale)	(3,864,670)	(4.59)%	O/A 60-90Days	-	-	581,931	5.70%	(Note)
The Company	Formosa Sumco Technology Corp.	Other related parties	Purchase	1,729,352	11.66%	O/A 60Days	-	-	(322,068)	(7.03)%	-

Note: The transactions were written off in the consolidated financial statements.

(Continued)

## NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

(viii) Receivables from related parties with amounts exceeding \$100 million or 20% of the Company's paid-in capital:

(In Thousands of New Taiwan Dollars)

Name of company	Counter-party	Nature of relationship	Ending balance of accounts receivable from related parties	Turnover rate	Overdue		Amounts received in subsequent period	Allowance for bad debts
					Amount	Action taken		
The Company	Nanya Technology Corp., U.S.A.	Subsidiary	2,500,336	6.52	-	-	1,037,246	-
The Company	Nanya Technology Corp., Japan	Subsidiary	701,225	5.53	-	-	325,344	-
The Company	Nanya Technology Europe GmbH	Subsidiary	581,931	5.28	-	-	288,589	-

Note: the transactions were written off in the consolidated financial statements.

(ix) Trading in derivative instruments: Please refer to notes Note 6(b)

(x) Business relationships and significant intercompany transactions:

(In Thousands of New Taiwan Dollars)

No.	Name of company	Name of counter-party	Nature of relationship	Intercompany transactions			
				Account name	Amount	Trading terms	Percentage of the consolidated net revenue or total assets
0	Nanya Technology Corp.	Nanya Technology Corp., U.S.A	1	Sales	9,918,899	On the basis of general conditions	11.71%
0	"	Nanya Technology Europe GmbH	1	Sales	3,864,670	On the basis of general conditions	4.56%
0	"	Nanya Technology Corp., Japan	1	Sales	4,297,141	On the basis of general conditions	5.07%
0	"	Nanya Technology Corp., U.S.A	1	Accounts receivable	2,500,336	On the basis of general conditions	1.37%
0	"	Nanya Technology Europe GmbH	1	Accounts receivable	581,931	On the basis of general conditions	0.32%
0	"	Nanya Technology Corp., Japan	1	Accounts Receivable	701,225	On the basis of general conditions	0.38%
1	Nanya Technology International, Ltd.	Nanya Technology Corp.	2	Other receivables	20,591,110	-	11.28%

Note 1: Assigned numbers represent the following:

1. 0 represents the parent company.
2. The subsidiaries are represented numerically starting from 1.

Note 2: The terms of transactions are defined as follows:

1. Parent company to subsidiary.
2. Subsidiary to parent company.
3. Subsidiary to Subsidiary.

Note 3: The business relationship and significant transactions between the parent company and the subsidiary only disclose the importations of sales and account receivable, didn't repeat about the purchase and account payable.

(b) Information on investees (excluding information on investees in Mainland China):

The following is the information on investees for the year ended December 31, 2018:

(In Thousands of New Taiwan Dollars / Shares)

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2018			Highest Percentage of ownership	Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2018	December 31, 2017	Shares (thousands)	Percentage of ownership	Carrying value				
The Company	Nanya Technology Corp., U.S.A	U.S.A	Sales of semiconductor products	20,392	20,392	2	100.00	125,933	100.00	24,676	24,676	(Note1)
The Company	Nanya Technology Corp., Delaware	U.S.A	Design of semiconductor products	36,005	36,005	-	100.00	149,539	100.00	15,445	15,445	(Note1)
The Company	Pei Jen Co., Ltd	Taipei	Import/export business	-	325,348	-	-	-	100.00	606	606	(Note1)
The Company	Nanya Technology Corp., HK	Hong Kong	Sales of semiconductor products	66,271	66,271	20	100.00	52,516	100.00	12,831	12,831	(Note1)
The Company	Nanya Technology Corp., Japan	Japan	Sales of semiconductor products	20,161	20,161	1	100.00	171,025	100.00	(6,593)	(6,593)	(Note1)
The Company	Nanya Technology International, Ltd.	British Virgin Island	General investment business	30,888,000	-	1	100.00	30,736,892	100.00	3,823	3,823	(Note 1)
The Company	Piece Makers Technology, Inc	Hsinchu	Design of semiconductor products	-	21,246	-	-	-	53.56	(1,669)	(894)	(Note1)
The Company	Formosa Advanced Technologies Co., Ltd	Yunlin	Assembling, testing and producing modules for IC	3,049,999	-	84,022	19.00	3,006,603	19.00	1,420,293	51,700	(Note 2)
Nanya Technology Corp., HK	Nanya Technology Europe GmbH	Germany	Sales of semiconductor products	30,056	30,056	-	100.00	62,831	100.00	4,081	4,081	(Note1)

Note: (1)The transactions were written off in the consolidated financial statements.

(2)Investment accounted for using equity method.

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## (c) Information on investment in mainland China:

## (i) The names of investees in Mainland China, the main businesses and products, and other information:

(In Thousands of New Taiwan Dollars)

Name of investee	Main businesses and products	Total amount of paid-in capital	Method of investment	Accumulated outflow of investment from Taiwan as of January 1, 2018	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2018	Net income (losses) of the investee	Percentage of ownership	Highest Percentage of ownership	Investment income (losses)	Book value	Accumulated remittance of earnings in current period
					Outflow	Inflow							
Nanya Technology Corp., Shenzhen	Sales of semiconductor products	30,272 (USD985 thousand)	(Note 1)	30,272 (USD985 thousand)	-	-	30,272 (USD985 thousand)	7,013	100.00	100.00	7,013	14,115	-

Note: the transactions were written off in the consolidated financial statements.

## (ii) Limitation on investment in Mainland China:

(In Thousands of New Taiwan Dollars)

Accumulated Investment in Mainland China as of December 31, 2018	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment (Note 3)
30,272 (USD985 thousand)	30,272 (USD985 thousand)	98,944,379

Note 1 : Indirect investment in Nanya Technology Corp., Shenzhen through Nanya Technology Corp., HK.

Note 2 : The exchange rate of New Taiwan dollars to US dollars on December 31, 2018 was USD1 : TWD 30.733.

Note 3 : 60% of net equity.

## (iii) Significant transactions: None

**(14) Segment information:**

## (a) General information:

The Group's main operating activities are the manufacturing and selling of semiconductor products, and are divided into two reporting segments, namely, the manufacturing department, which is responsible for the manufacture and sales of semiconductor products; and the Japanese department, which is responsible for the sales of semiconductor products. The operating decision maker, on the other hand, uses the geographic area information as its management framework in managing the segments mentioned above.

There was a difference between the division bases of segmentation in 2018 and those included in the previous consolidated financial statements due to the improvement of the quality of semiconductor products in 2018 that met the market demand in the USA, resulting in the American Department, which is mainly responsible for the sales of semiconductor products, to be identified as one of the reporting segments of the Group.

## (b) The income of the reporting segment, segment assets, segment liabilities and the information of the measure basis and reconciliation.

The Group's reportable segments are the Company's regional business divisions. The chief operating decision maker manages the business division with a respective regional management framework. Most of the management information are reported separately for each of the business divisions. The management of the business divisions remains employed by the Group.

No tax expenses are allocated to the reporting segment. The reportable amount is similar to that of the report used by the chief operating decision maker.

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The accounting policies of the operating segments are the same as those described in Note 4. The operating segment's profit of the Group uses the operating income before tax as the measurement and basis of performance evaluation. The Group treats intersegment sales and transfers as third-party transactions. They are measured at market price.

Operating segments are combined and reconciled as follows:

	For the year ended December 31, 2018					
	Japanese division	American division	Manufacturing divisions	Others divisions	Adjustments and eliminated	Total
Revenue:						
From external customers	\$ 4,450,249	10,077,589	65,974,302	4,219,664	-	84,721,804
From sales among intersegments	2,487	1,811	18,295,650	459,244	(18,759,192)	-
<b>Total revenue</b>	<b>\$ 4,452,736</b>	<b>10,079,400</b>	<b>84,269,952</b>	<b>4,678,908</b>	<b>(18,759,192)</b>	<b>84,721,804</b>
Interest expense	\$ -	-	5,325	419	-	5,744
Depreciation and amortization	1,587	312	12,072,514	6,151	-	12,080,564
Share of profit (loss) of associates accounted for using equity method, net	-	-	101,594	-	(49,894)	51,700
Other non-cash significant item:						
Reversal of impairment loss on non-financial assets	-	-	109,745	-	-	109,745
<b>Reportable segment profit or loss</b>	<b>\$ (6,544)</b>	<b>36,323</b>	<b>41,566,538</b>	<b>37,915</b>	<b>(49,895)</b>	<b>41,584,337</b>
Capital expenditure of non-current assets	6,255	490	95,339,823	12,424	-	95,358,992
<b>Reportable segments assets</b>	<b>\$ 882,323</b>	<b>2,654,957</b>	<b>203,166,038</b>	<b>31,591,529</b>	<b>(55,709,034)</b>	<b>182,585,813</b>
<b>Reportable segments liabilities</b>	<b>\$ 708,537</b>	<b>2,506,403</b>	<b>38,258,740</b>	<b>652,582</b>	<b>(24,447,747)</b>	<b>17,678,515</b>

	For the year ended December 31, 2017					
	Japanese division	American division	Manufacturing divisions	Others divisions	Adjustments and eliminated	Total
Revenue:						
From external customers	\$ 4,013,502	3,290,981	43,152,859	4,460,882	-	54,918,224
From sales among intersegments	2,284	1,825	10,933,392	361,622	(11,299,123)	-
<b>Total revenue</b>	<b>\$ 4,015,786</b>	<b>3,292,806</b>	<b>54,086,251</b>	<b>4,822,504</b>	<b>(11,299,123)</b>	<b>54,918,224</b>
Interest expense	\$ 3	-	456,872	2,786	-	459,661
Depreciation and amortization	1,560	312	8,559,486	8,768	-	8,570,126
Other non-cash significant item:						
Impairment loss on non-financial assets	-	-	488,988	-	-	488,988
<b>Reportable segment profit or loss</b>	<b>\$ 39,851</b>	<b>4,765</b>	<b>41,793,083</b>	<b>(250,557)</b>	<b>243,388</b>	<b>41,830,530</b>
Capital expenditure of non-current assets	\$ 3,017	622	86,218,545	19,696	-	86,241,880
<b>Reportable segments assets</b>	<b>\$ 1,034,197</b>	<b>688,873</b>	<b>150,516,379</b>	<b>1,627,996</b>	<b>(3,088,143)</b>	<b>150,779,302</b>
<b>Reportable segments liabilities</b>	<b>\$ 862,239</b>	<b>568,994</b>	<b>18,516,514</b>	<b>1,164,160</b>	<b>(2,447,793)</b>	<b>18,664,114</b>

(c) Types of products and service:

The Group's revenue from external customer were as follows:

Products and service	For the years ended December 31,	
	December 31, 2018	December 31, 2017
DRAM	\$ 84,580,123	54,771,159
Others	141,681	147,065
<b>Total</b>	<b>\$ 84,721,804</b>	<b>54,918,224</b>

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## (d) Geographic area information

The Group's revenue from operations from external customers by location of operations and information concerning the location of its non-current assets were as follows:

District	For the years ended December 31,	
	December 31, 2018	December 31, 2017
From external clients:		
Taiwan	\$ 38,277,635	22,151,564
USA	592,486	535,591
Japan	2,060,489	1,948,930
Mainland China	37,366,204	24,207,571
Other countries	6,424,990	6,074,568
Total	\$ 84,721,804	54,918,224

  

District	For the years ended December 31,	
	December 31, 2018	December 31, 2017
Non-current assets:		
Taiwan	\$ 95,385,703	86,359,441
Other countries	19,170	18,989
Total	\$ 95,404,873	86,378,430

Non-current assets included property, plant and equipment and intangible asset, excluding financial instruments and deferred tax assets.

## (e) Major clients

	For the years ended December 31,	
	December 31, 2018	December 31, 2017
WPI	\$ 7,691,277	7,001,118
KINGSTONE TECHNOLOGY CO, LTD	19,139,559	6,538,291
Total	\$ 26,830,836	13,539,409