Stock Code: 2408
Annual Report Website: http: //**www.nanya.com**
http: //**mops.twse.com.tw**

Nanya Technology Corporation

2018 Annual Report

(This English translation is prepared in accordance with the Chinese version and is for reference purposes only. If there are any inconsistencies between the Chinese version and this translation, the Chinese version shall prevail.)

Published on April 24, 2019

I. Name, title, contact number, and e-mail of the Company's spokesperson and deputy spokesperson:

Item	Spokesperson	Deputy Spokesperson
Name	Pei-Ing Lee	Joseph Wu
Title	President	VP
Tel	(02)2904-5858	(02)2904-5858
Email	pilee@ntc.com.tw	josephwu@ntc.com.tw

II. Address and telephone number of head office and branches:

Company: No. 98, Nanlin Rd., Taishan Dist., New Taipei City 243, Taiwan(R.O.C.)

Tel: (02)2904-5858

Factory: No. 98, Nanlin Rd., Taishan Dist., New Taipei City 243, Taiwan(R.O.C.)

Tel: (02)2904-5858

III. Name, address, website, and telephone number of the Common Stock Transfer Agency:

Name: Nanya Technology Corp., Stock Affairs Department

Address: No.201, Dunhua N. Rd., Taipei City

Website: N/A

Tel: (02)2718-9898

IV. Name, address, website, and telephone number of auditors and the accounting firm that certified financial statements in the most recent year:

Name of auditors: Astor Kou and Delphi Chen

Name of firm: KPMG Certified Public Accountants Firm

Address: 68F, No. 7, Sec. 5, Xinyi Rd., Taipei City

Website: http: //www.kpmg.com.tw

Tel: (02)8101-6666

V. Company website: http: //www.nanya.com

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A. Letter to Shareholders

I. 2018 Business Report

Our consolidated revenue amounted to NT$84,720 million in 2018, an increase of about 54% and over NT$54,920 million in 2017 and representing a new record high since the Company was established. Net income was NT$39,360 million and earnings per share was NT$12.80 in 2018. Our excellent performance was mainly due to selling price increases and our migration to 20nm process technology, with which our bit shipments were increased.

The average sales prices in the market increased in the first two quarters of 2018 due to tight supply in the overall DRAM market. Supply remained stable in the third quarter, but end demand declined in the fourth quarter due to tariffs and supply chain adjustments resulting from the US-China trade dispute, as well as Intel's CPU shortage, causing the average sales price to decline. Overall, average sales prices for the year still increased by about 15% as compared with that in the previous year. As the yield of 20nm process technology has continued to be improved and wafer input volume has increased, bit output has sequentially increased each quarter. Bit shipment in 2018 grew about 35% as compared with that in the previous year, and overall revenue set a record high.

The significant growth of bit output in 2018 also caused average unit cost to become lower than in the previous year. The increase in average sales price and decrease in unit cost drove gross margin up to 55% in 2018, an improvement over the 45% in the previous year. An operating profit of NT$39,360 million in 2018 also set a record high since the Company was established.

With regard to product portfolio optimization, we significantly increased shipments of our high unit price mainstream product 8Gb DDR4 in 2018, thereby increased the average sales price of our product portfolio. Furthermore, we also promoted the product's application in data centers. We passed certification of a number of first-tier

customers in the fourth quarter and began making small shipments.

To strengthen our partnership with Formosa Advanced Technologies Co., Ltd ("FAT"). and improve our overall business performance, we acquired 19% of FAT's shares and a seat on the Board of Directors in 2018.

To retain outstanding talent and maintain our credibility and shareholders' equity, we implemented a two-stage share repurchasing plan starting in November 2018, during which we bought back a total of 70,136,000 outstanding shares, representing 2.26% of our total outstanding shares.

We are dedicated to providing the highest quality products and services to our customers, so as to create economic value for our shareholders. We are also constantly improving different aspects of our business to achieve sustainability: Implementation of corporate governance, regulatory compliance, active participation in social welfare, development of a happiness enterprise to care for employees, and development of green technologies. We were conferred numerous awards for corporate sustainability in 2018, including being entered into the Dow Jones Sustainability Emerging Markets Index, FTSE4Good TIP Taiwan ESG Index, and Thomson Reuters Top 100 Global Technology Leaders; winning the Top 50 Taiwan Sustainable Corporates and the TCSA (Taiwan Corporate Sustainability Awards) Corporate Sustainability Report Gold Award for two consecutive years; ranking in the top 5% of the 4th Corporate Governance Evaluation by Taiwan Stock Exchange; winning the TTQS Gold Medal from the Ministry of Labor and Excellent Innovative Enterprise in the Smart Technology Category of the National Industrial Innovation Award.

II. **Business Plan for 2019**

The market's average sales prices began to decline in the fourth quarter of 2018, and visibility of short-term terminal demand growth was low. We have stepped up efforts to monitor our capital expenditures and controled the scale of our future bit production growth. Hence, we did not increase any production capacity. Our bit

shipment in 2019 is expected to grow by low single digit percentage.

We will continue to optimize our product portfolio and direct our efforts to increasing the added value of our products to diversify our operational risk. In 2019, we will continue to promote the application of 4Gb/8Gb DDR4 in consumer markets, as well as the application of 8Gb DDR4 in server markets in our effort to earn certifications from, and make shipments to, more major data center customers. Furthermore, we adopted our 20nm process technology for the trial production of advanced low-power DRAM products in 2018. Starting in 2019, we will launch 2Gb/4Gb/8Gb LPDDR4X, 4Gb/8Gb LPDDR3, and other mainstream products to increase our sales amount in the smartphone, smart wearable devices, smart voice, low-power laptops, and high performance SSD markets.

Besides having the option of licensing 1X/1Ynm process technology from Micron Technology Inc., the 10nm process technology we are independently developing is currently on schedule. We will analyze the economic benefits of these two options to serve as a basis for choosing between the process technologies.

III. Industry Outlook

Among DRAM end applications, smartphones and servers/data centers are the most important market segments. Smartphones are currently going through a transition period to 5G, and shipment growth has slowed within the short-term, but the memory content on each smartphone is expected to continue increasing. Server bit demand growth has surpassed that of smartphone applications. Mobile computing, artificial intelligence, the Internet of Things, and cloud applications continue to drive significant growth of the data center industry. After considering the growth momentum of other market segments, overall DRAM bit demand of the global market is expected to grow by high double digits in 2019 compared that in 2018.

With regard to DRAM supply, according to news reports, the three major DRAM suppliers have implemented production capacity and output adjustment plans in

response to the slow market condition currently. Summarizing the information available to us, we expect overall DRAM bit supply growth in 2019 to remain at a high double digit percentage.

Over a short period of time from the fourth quarter of 2018 to the first quarter of 2019, demand on DRAM weakened due to the global economic slowdown, the electronic products supply chain adjustment caused by the U.S.-China trade war, and insufficient CPU supply. The DRAM price drop was worse than expected, but is expected to slow down as our customers adjust their inventories in the second quarter. The third quarter is the seasonally high quarter in all market segments, and we expect to see the U.S. and China reach an agreement by that time. Supply chain adjustments are expected to be completed and CPU supply is expected to be increased, allowing the overall DRAM market to gradually return to a stable state. From a long-term perspective, DRAM is a key component in all electronics products and is required in smart applications. Hence, we expect the DRAM market to maintain steady growth in the long run.

Thanks to the collective efforts of our employees, we achieved excellent performance in terms of revenue, profits of our main business, and corporate sustainability in 2018. Looking to the future, we will continue to improve the core value of DRAM and enhance our competitiveness in the development of advanced processes and new generation products, creating better performance for all employees and shareholders.

B. Company Profile

I. Date of Incorporation: Mar 4, 1995

II. Milestones

March 1995	Nanya Technology Corp. was established and incorporated.
Apr	MOU signed by OKI, NTC and Nanya Plastics, in which NTC succeed all rights and obligations of 16Mb DRAM technology form Nanya Plastics Corp.
November 1996	Signed 0.36μm and 0.32μm 64Mb DRAM technology licensing agreement with OKI.
July 1997	Set up NTC-USA, the branch office in charge of sales and marketing activities in USA.
April 1998	Awarded ISO-9001 Certification by Lloyd's Register Quality Assurance (LRQA).
Nov	Signed a technology transfer agreement for 0.2/0.175μm process technology with IBM.
Dec	Awarded ISO-14001 Certification by Lloyd's Register Quality Assurance (LRQA).
Dec	Set up a product design center in Houston, Texas.
October 1999	0.20μm 64Mb SDRAM mass production started.
August 2000	NTC was listed on Taiwan Stock Exchange.
Oct	Signed a co-development agreement for 0.14/0.11μm process technology with IBM.
June 2001	Mass production of 0.175μm 128Mb/256Mb DRAM.
Oct	DDR Products leads the market in production.
April 2002	Set up Nanya-HK Limited.
Jun	Signed a strategic alliance agreement with Dell as Dell’s main supplier of DRAM products.
Sep	Set up a branch office in Tokyo, Japan.
Nov	Signed a Joint Development Program with Infineon Technologies AG to co-develop 0.07 and 0.09μm process technology.
Dec	Awarded ISO-18001 Certification by Lloyd's Register Quality Assurance (LRQA). Awarded ISO-14001 Certification by Sweden Det Norske Veritas.

January 2003	Signed a Joint Development Program with Infineon Technologies AG to develop Inotera Memories Ltd.
Mar	According to Gartner iSuppli, our Company's market share rose to No.5 in the world in 2002.
Jul	Offering of Global Depositary Shares (GDS) on Luxembourg Stock Exchange.
May 2004	DDR2 products obtained worldwide system makers' validation.
Dec	90nm pilot-run started.
April 2005	512Mb DDR2 SDRAM (667 MHz) validated by Intel.
Jun	Successful qualification of 90nm technology.
Sep	Signed 60nm technology co-development agreement with Infineon.
March 2006	Nanya Fab-3 (300mm) groundbreaking ceremony.
Oct	Set up Nanya Technology (Shanghai) Corp.
May 2007	FAB-3A equipment move-in.
Nov	Pilot run successful in FAB-3A; 70nm wafer starts in Q3.
April 2008	Signed JV agreement with Micron.
Nov	FAB-3A 1st phase full capacity with 70nm.
August 2009	68nm stack technology has been demonstrated successfully.
Sep	50nm stack technology has been demonstrated successfully.
January 2010	Invested in IC design company─PieceMakers Tech Inc.
Jul	42nm stack technology has been demonstrated successfully.
Oct	Started 42nm stack technology volume production.
July 2011	30nm stack technology has been demonstrated successfully.
March 2012	Set up Sumpro Electronics Corporation Limited.
January 2013	Amends Inotera Memories Joint Venture With Micron and Micron acquires rights to 100% of Inotera's output.
Oct	Achieved certification ISO 10002– Complaints Management Systems.

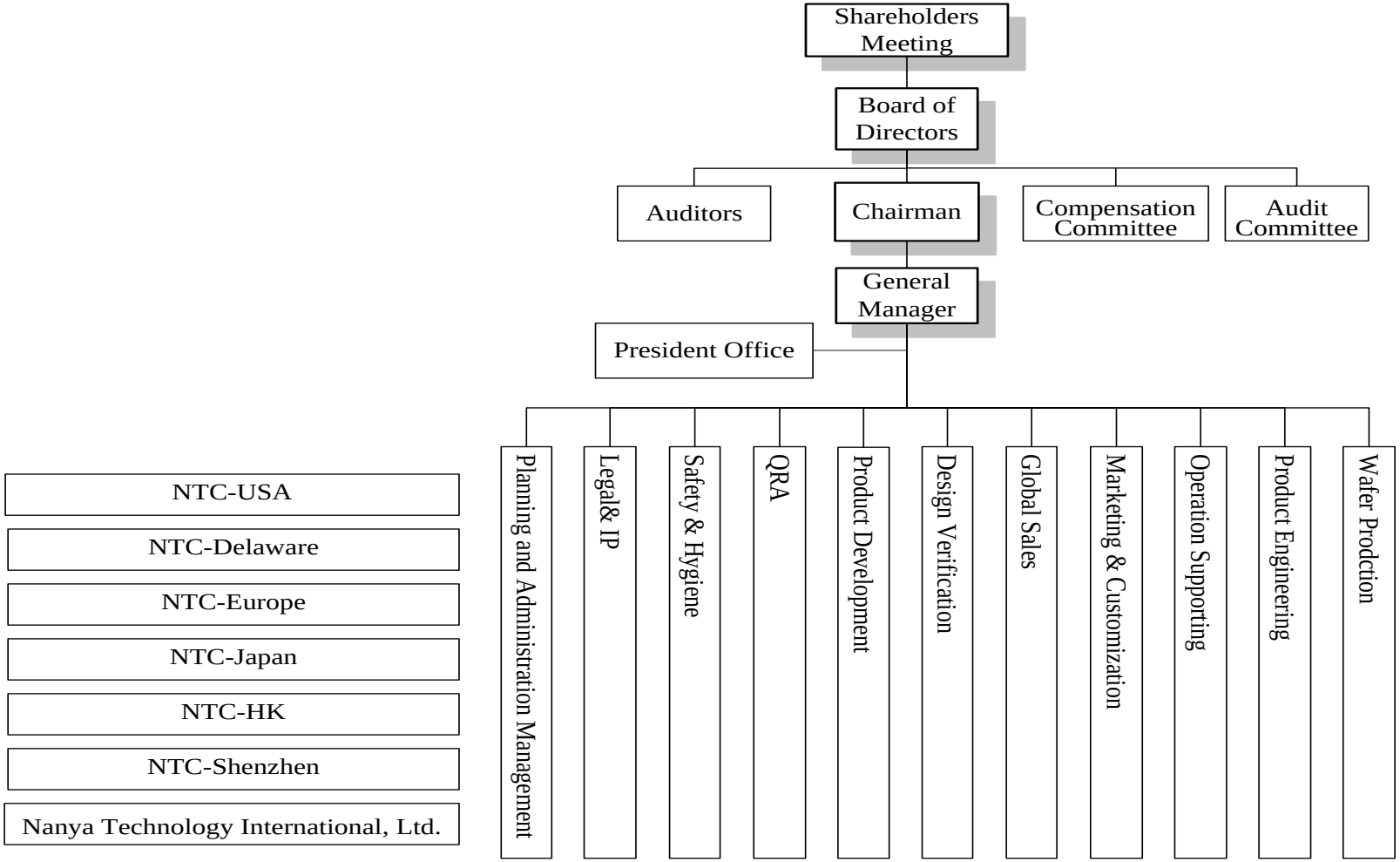
July 2014	Disposal of Sumpro's 8-inch Fab and equipment.
Oct	Started 30nm process technology design shrink version volume production.
Oct	DDR4 products obtained worldwide system makers' validation.
July 2015	Fab 3A-N ground breaking.
Aug	30nm process technology design shrink version crossover.
Sep	NTC through the Electronic Industry Citizenship Alliance Validated Audit Process (EICC VAP).
Dec	LPDDR3 4Gb volume production.
June 2016	Social responsibility report of the Company is verified by the British Standards Association (BSI) according to the AA1000 Guarantee Standard.
Oct	20nm equipment move-in.
Dec	Completed Inotera share swap with Micron.
March 2017	20nm pilot run.
Apr	Nanya Technology was awarded "Qualified Supplier" from TCL Corporation.
Aug	New Headquarters Grand Opening.
Oct	Nanya Technology was awarded "The Excellent Supply Partner & Green Partner" from Huawei Technology. Nanya Technology Awarded 2017 New Taipei City Environmental Impact Assessment Excellent Development Selection – Gold Level.
Nov	New headquarters building achieved EEWH Assessment System Silver level. Nanya Technology won 2017 Taiwan Corporate Sustainability Award.
Dec	8Gb DDR4 mass production.
April 2018	Nanya Technology Awarded Thomson Reuters' Top 100 Global Technology Award.
May	Ranked in the top 5% of the 4th Corporate Governance Evaluation.
Jul	Acquired 19% shares of Formosa Advanced Technologies Co., Ltd.
Sep	Selected into the Dow Jones Sustainability Emerging Markets Index in 2018.
Oct	8 Gb DDR4 server products were certified by server (data center) customers.
Nov	Achieved ISO 50001 certification.
Nov	Won numerous awards in the 2018 Taiwan Corporate Sustainability Awards.

C. Corporate Governance

I. Organization

(I) Organization Structure

April 1, 2019



Note: Nanya Technology International, Ltd. was established in November 2018. Liquidation of Pei-Jen Co., Ltd. was completed in December 2018.

(II) Major Corporate Functions

April 1, 2019

Department	Functions
Corp. Audit	Responsible for internal control system and evaluates the integrity and comprehensiveness of regulations; examines whether internal control is conducted effectively and continuously, measures the performance of each department and recommends corrective actions on a timely manner for an overall effective operation.
Planning and Administration Management	1. IR/PR: Responsible for maintaining the Companies' relationships with (institutional) investors and managing the release of public information to the mass media and the relationship with the general public. 2. Information Security: Responsible for the promotion and audit of the Company's safety and security affairs, strengthening the protection of technology and business secrets. 3. Human Resource: Establishing human resource policy and executing personnel systems, including personnel, salary and compensation, employee relationship, training and talent development effectively and efficiently to increase company's human capital. 4. Responsible for financial policy management, capital movement, budget compilation, review and control, accounting process, and supervision of material assets, procurement and factory safety. 5. Responsible for market trends analysis, assessment of the investment plan, set product strategy and operational marketing plans, programs and promote the cross-functional projects, sales performance management, outsourcing policy management. 6. Responsible for the planning and promotion of corporate social responsibility and risk management. 7. Responsible for the planning and implementation of risk management.
Legal & IP	Responsible for company legal affairs and other intellectual property management.
Safety & Hygiene	Supervises and audits the working environment with professional knowledge and continuous improvement; planning and maintaining the safety and hygiene management system (ISO 14001, OHSAS 18001, TOSHMS management system).
Quality & Reliability Assurance	1. Responsible for the planning and establishment of the Company's quality assurance system, and promote the quality of education and training, verification audit, quality control and quality improvement to meet quality theory of our business concept. 2. Responsible for establish FAB quality control system and incoming quality control, in-process quality control, failure analysis to ensure the stability of product quality and meet customer needs.

Department	Functions
Products Development	Responsible for design, develop and control new product.
Design Verification	Responsible for develop and design verification of mass production engineering technology and set up testing program.
Global Sales	Responsible for the promotion and development of global business, set business strategy, promotion of new products, elaboration and implementation of marketing plans and public relations matters.
Marketing and Customization	Responsible for product promotion and marketing program, planning marketing proposal, cost benefit analysis, managing the process of product development, sampling, customer verification, and mass production.
Process Development	Responsible for process development, product shrink, and quality improvement for new product.
Operation Supporting	1. Responsible for the planning and management of production automation, maintenance and management of office automation, establishment and management of computer network automation, and maintenance and management of information security. 2. Plan for expansion program, promotion of new factory construction, factory duty engineering design, planning, and implementation, capacity planning and management, materials management, to help improve operational efficiency.
Product Engineering	Product Engineering and Testing: Responsible for validating new products, product engineering and testing technology development, abnormal product electrical/physical property analysis, development and management outsourcing of IC packaging and testing technology.
Wafer Manufacturing	1. Manufacturing: Responsible for the planning and operation of the manufacturing, process, equipment, and facility, to meet our customer requirements in quality and delivery. 2. Public system: Institutionalization and systematic establishment of public equipment operation and maintenance, and strengthening operational efficiency.

II. Directors and Management Team

(I) Directors

April 1, 2019

Title	Nationality/Place of Incorporation	Name	Gender	Date Elected (In Office)	Term (Years)	Date First Elected	Shareholding when Elected		Current Shareholding		Shares held by spouse and underage children		Shareholding by Nominee Arrangement		Experience (Education)	Director's Current Position at NTC and Other Companies	Executives or Directors who are Spouses or within Two Degrees of Kinship		
							Shares	Percentage of shares(%)	Shares	Percentage of shares(%)	Shares	Percentage of shares(%)	Shares	Percentage of shares(%)			Title	Name	Relationship
Chairman	R.O.C	Nan Ya Plastics Corp. Representative: Chia Chau, Wu	Male	2016.06.22	Three years	1995.02.17 2004.05.12	907,303,769 957	33.01 0.00	907,303,775 957	29.71 0.00	0 0	0.00 0.00	0 0	0.00 0.00	Chairman, Nan Ya Plastics Corp. Department of Business Administration, National Chengchi University	Chairman, Nan Ya Plastics Corp. Chairman, Nan Ya PCB Corp.	N/A	N/A	N/A
Director	R.O.C	Wen Yuan, Wong	Male	2016.06.22	Three years	2007.05.25	4,000	0.00	4,000	0.00	127,648	0.00	0	0.00	Chairman, Formosa Chemicals & Fibre Corp. Master Degree in Industrial Engineering, University of Houston, USA	Chairman, Formosa Chemicals & Fibre Corp. Chairman, Formosa Taffeta Co., Ltd., Chairman, Formosa Advanced Technologies Co., Ltd. Chairman, Chinese National Federation of Industries	Director Director	Wen-Yao Wang Otto Chang	Brother Affinity
Director	R.O.C	Susan Wang	Female	2016.06.22	Three years	2010.06.24	0	0.00	0	0.00	0	0.00	0	0.00	Executive Director, Formosa Plastics Corp. Department of Economics, Barnard College, USA	Executive Director, Formosa Plastics Corp. Executive Director, Formosa Petrochemical Corp.	N/A	N/A	N/A
Independent Director	R.O.C	Ching-Chyi Lai	Male	2016.06.22	Three years	2016.06.22	0	0.00	0	0.00	0	0.00	0	0.00	Chairman, Chunghwa Post Co., Ltd. Chairman, Taiwan Insurance Institute Former Deputy Secretary General, Executive Yuan ROC, Former Chief Secretary, Council for Economic Planning and Development Master Degree in Public Finance, National Chengchi University	Director, Taipei Foundation of Finance Independent Director, Excellence Optoelectronic Inc. Chair Professor, Chung Hua University	N/A	N/A	N/A
Independent Director	R.O.C	Shu-Po Hsu	Male	2016.06.22	Three years	2013.06.21	0	0.00	0	0.00	0	0.00	0	0.00	Vice Chairman, General Chamber of Commerce of the Republic of China Master Degree in Graduate Institute of Criminology, National Chung Cheng University	Chairman, Life Insurance Educational Foundation Vice Chairman, Taiwan Life Insurance Co., Ltd. Director, TLG Insurance Co., Ltd.	N/A	N/A	N/A

Independent Director	R.O.C	Tsai-Feng Hou	Female	2016.06.22	Three years	2013.06.21	0	0.00	0	0.00	0	0.00	0	0.00	Former Legislator Former President, Former Ta Chong Securities Co., Ltd. Executive Master Degree in Public Policy Program, National Sun Yat-sen University	N/A	N/A	N/A	N/A
Director	R.O.C	Pei-Ing Lee	Male	2016.06.22	Three years	2004.05.12	263,098	0.01	683,098	0.02	1,571	0.00	0	0.00	President, Nanya Technology Corp. Ph.D. in Chemical Engineering, Syracuse University, USA	President, Nanya Technology Corp. Independent Director, Powertech Technology Inc. (Note)	N/A	N/A	N/A
Director	R.O.C	Formosa Taffeta Co., Ltd. Representative: Shih-Ming Hsie	Male	2016.06.22	Three years	1995.02.17 2001.03.30	15,421,010 0	0.56 0.00	7,711,010 0	0.25 0.00	0 0	0.00 0.00	0 0	0.00 0.00	President, Formosa Advanced Technologies Co., Ltd. Graduated from National Taipei University of Technology	Vice Chairman and President, Formosa Advanced Technologies Co., Ltd. Vice Chairman, Formosa Taffeta Co., Ltd.	N/A	N/A	N/A
Director	R.O.C	Nan Ya Plastics Corp. Representative: Ming Jen, Tzou	Male	2016.06.22	Three years	1995.02.17 2010.06.24	907,303,769 0	33.01 0.00	907,303,775 0	29.71 0.00	0 0	0.00 0.00	0 0	0.00 0.00	President, Nan Ya Plastics Corp. Department of Chemical Engineering, Former National Taipei University of Technology	Director and President, Nan Ya Plastics Corp. Director, Nan Ya PCB Corp.	N/A	N/A	N/A
Director	R.O.C	Otto Chang	Male	2016.06.22	Three years	2004.05.12	59,839	0.00	59,839	0.00	0	0.00	0	0.00	Senior Vice President, Nan Ya Plastics Corp. Department of Automatic Control Engineering, Feng Chia University	Senior Vice President, Nan Ya Plastics Corp. Director, Nan Ya PCB Corp. (Note)	Director Director	Wen Yuan, Wong Wen-Yao Wang	Affinity Affinity
Director	R.O.C	Nan Ya Plastics Corp. Representative: Wen-Yao Wang	Male	2016.06.22	Three years	1995.02.17 2010.06.24	907,303,769 2,471,097	33.01 0.09	907,303,775 995,097	29.71 0.03	0 13,311	0.00 0.00	0 0	0.00 0.00	Senior Vice President, Nan Ya Plastics Corp. Department of Business Administration, Pitzer College, USA	Senior Vice President, Nan Ya Plastics Corp.	Director Director	Wen Yuan, Wong Otto Chang	Brother Affinity
Director	R.O.C	Nan Ya Plastics Corp. Representative: Lin-Chin Su	Male	2016.06.22	Three years	1995.02.17 2016.06.22	907,303,769 1,601	33.01 0.00	907,303,775 269,601	29.71 0.01	0 0	0.00 0.00	0 0	0.00 0.00	Executive Vice President, Nanya Technology Corp. Ph.D. in Materials Science and Engineering, University of Utah, USA	Executive Vice President, Nanya Technology Corp. Director, Formosa Advanced Technologies Co., Ltd.	N/A	N/A	N/A

Note: Please refer to VIII. Other Special Notes (Directors, Supervisors and Presidents of NTC's Subsidiaries)

Major shareholders of the institutional shareholders April 24, 2019

Name of Institutional Shareholders	Major shareholders of the institutional shareholders
Nan Ya Plastics Corp.	Chang Gung Medical Foundation (11.05%), Formosa Plastics Corp. (9.88%), Formosa Chemicals & Fibre Corp. (5.21%), Chang Gung University (4%), Vanson International Investment Co., LTD. (2.39%), Formosa Petrochemical Corp. (2.26%), Chindwell International Investment Corp. (1.86%), LGT Bank (Singapore) Ltd. (1.56%), MACRO SYSTEMS CORP (1.26%), Cathy Life Insurance Co., Ltd.(1.22%)
Formosa Taffeta Co., Ltd.	Formosa Chemicals & Fibre Corp. (37.40%), Chang Gung Medical Foundation (5.79%), Yu Yuang Textile Co., Ltd. (2.55%), Min-Xiong Lai (2.45%), Chang Gung University (2.20%), Chang Gung University of Science and Technology (2.13%), Ming Chi University of Technology (1.87%), Asia Pacific Investment Co., Ltd. (1.43%), Taiwan Life Insurance Company Ltd. (1.26%), Nan Shan Life Insurance Co., Ltd. (1.24%)

Major shareholders of the Company's major institutional shareholders April 24, 2019

Name of Institution	Major shareholders of institution
Formosa Plastics Corp.	Chang Gung Medical Foundation (9.44%), Formosa Chemicals & Fibre Corp.(7.65%), Credit Suisse AG -- CREDIT SUISSE SINGAPORE BRANCH (6.26%), Nan Ya Plastics Corp.(4.63%), Chindwell International Investment Corp.(4.16%), Vanson International Investment Co., Ltd. (3.05%), Formosa Petrochemical Corp. (2.07%), Investment Account of Singapore's Government Fund under the custody of Citibank Taiwan (1.54%), Investment Account of Fubon Life Insurance Co., Ltd. (1.46%), Ming Chi University of Technology (1.43%)
Formosa Chemicals & Fibre Corp.	Chang Gung Medical Foundation (18.58%), Chindwell International Investment Corp. (6.35%), Vanson International Investment Co., Ltd. (3.80%), Formosa Plastics Corp. (3.39%), Nan Ya Plastics Corp. (2.40%), Wen Yuan, Wong (2.20%), Consolidated Power Development Corp.(1.63%), Genesis Equity Group Inc. (1.41%), Cathy Life Insurance Co., Ltd. (1.35%), HSBC Bank (Taiwan) Limited In Custody for Consolidated Power Development Corp. (1.30%).
Formosa Petrochemical Corp.	Formosa Plastics Corp.(28.56%), Formosa Chemicals & Fibre Corp.(24.15%), Nan Ya Plastics Corp.(23.11%), Chang Gung Medical Foundation (5.79%), Formosa Taffeta Co., Ltd.(3.83%), Genesis Equity Group Inc. (0.60%), HSBC Bank (Taiwan) Limited In Custody for Power Unlimited Corporation (0.51%), Central Capital management Incorporated (0.49%), HSBC Bank (Taiwan) Limited In Custody for Pacific Light and Power Corporation (0.48%), Charitable Trust-Wang Chang Gung Social Welfare Fund under the custody of the Bank of Taiwan (0.44%)
Nan Shan Life Insurance Co., Ltd.	Trust account of Ruen Chen Investment Holding Co., Ltd. under the custody of First Bank (68.17%), Ruen Chen Investment Holding Co., Ltd (22.46%), Ying-Zong Du (3.25%), Ruen-hua Dyeing & Weaving Co., Ltd (0.28%), Ruentex Leasing Corp. (0.13%), Chiping investment Corp. (0.11%), Wen-De Guo (0.10%), Pao-huang Investment Co., Ltd.(0.05%), Pao-hui Investment Co., Ltd.(0.05%), Pao-yi Investment Co., Ltd.(0.05%), Pao-Chih Investment Co., Ltd. (0.05%)
Cathy Life Insurance Co., Ltd.	Cathay Financial Holdings Corp. (100%)
Taiwan Life Insurance Co., Ltd.	Chinatrust Financial Holding (100%)
LGT Bank (Singapore) Ltd.	Investment Account
MACRO SYSTEMS CORP	Investment Account
Chindwell International Investment Corp.	Everred Coporate, Inc. (100%)
Vanson International Investment Co.,LTD.	Landmark Capital Holdings Inc. (100%)
Yu Yuang Textile Co., Ltd.	non-public company
Asia Pacific Investment Co., Ltd.	non-public company
Chang Gung Medical Foundation	A foundation approved by Department of Health and has not issued shares.
Chang Gung University	A foundation approved by Ministry of Education and has not issued shares.
Ming Chi University of Technology	A foundation approved by Ministry of Education and has not issued shares.
Chang Gung University of Science and Technology	A foundation approved by Ministry of Education and has not issued shares.

Directors' Professional Qualifications and Independent Analysis

April 1, 2019

Criteria / Name	Has at least 5 years of work experience and meets one of the following professional qualifications			Independence (Note)										Number of other public companies in which the individual is concurrently serving as an Independent Director
	An instructor or higher position in a department of commerce, law, finance, accounting, or other academic department related to the business needs of the Company in a public or private junior college, college, or university	A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialist who has passed a national examination and been awarded a certificate in a profession necessary for the business of the Company	Has work experience in the areas of commerce, law, finance, or accounting, or areas otherwise necessary for the business of the Company	1	2	3	4	5	6	7	8	9	10	
Nan Ya Plastics Corp. Representative: Chia Chau, Wu			✓			✓	✓			✓	✓	✓		N/A
Wen Yuan, Wong			✓			✓				✓		✓	✓	N/A
Susan Wang			✓			✓	✓			✓	✓	✓	✓	N/A
Ching-Chyi Lai	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Shu-Po Hsu			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	N/A
Tsai-Feng Hou			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	N/A
Pei-Ing Lee			✓			✓	✓	✓		✓	✓	✓	✓	1
Formosa Taffeta Co., Ltd. Representative: Shih-Ming Hsie			✓			✓	✓	✓	✓	✓	✓	✓		N/A
Nan Ya Plastics Corp. Representative: Ming Jen, Tzou			✓			✓	✓			✓	✓	✓		N/A
Otto Chang			✓			✓				✓		✓	✓	N/A
Nan Ya Plastics Corp. Representative: Wen-Yao Wang			✓			✓				✓		✓		N/A
Nan Ya Plastics Corp. Representative: Lin-Chin Su			✓			✓	✓	✓		✓	✓	✓		N/A

Note: Each of the directors and supervisors shall meet the following conditions during the previous two years and during the term of office. Please mark "v" in the space below the condition code.

(1) Not an employee of the Company or any of its affiliates.
(2) Not a director or supervisor of the Company or any of its affiliates. Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.
(3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
(4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
(5) Not a director, supervisor, or employee of a corporate shareholder who directly holds 5% or more of the total number of outstanding shares of the Company or who holds shares ranking in the top five holdings.
(6) Not a director, supervisor, officer, or shareholder holding 5% or more of the shares, of a specified company or institution which has a financial or business relationship with the Company.
(7) Not a professional individual who is an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof. These restrictions do not apply to any member of the remuneration committee who exercises powers pursuant to Article 7 of the "Regulations Governing the Establishment and Exercise of Powers of Remuneration Committees of Companies whose Stock is Listed on the TWSE or Traded on the TPEx".
(8) Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
(9) Not been a person of any conditions defined in Article 30 of the Company Law.
(10) Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

(II) Management Team

April 1, 2019

Title	Nationality	Name	Gender	Date Elected (In Office)	Shareholding		Spouse's/ minor's Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Current job position in other companies	Managerial officer who is a spouse or a relative within		
					Shares (Share)	Percentage of shares(%)	Shares (Share)	Percentage of shares(%)	Shares (Share)	Percentage of shares(%)			Title	Name	Relationship
President	R.O.C	Pei-Ing Lee	Male	2015.10.06	683,098	0.02	1,571	0.00	0	0.00	President, Nanya Technology Corp. Ph.D. in Chemical Engineering, Syracuse University, USA	Independent Director, Powertech Technology Inc. (Note 3)	N/A	N/A	N/A
Executive Vice President	R.O.C	Lin-Chin Su (Note 1)	Male	2019.03.08	269,601	0.01	0	0.00	0	0.00	Executive Vice President, Nanya Technology Corp. Ph.D. in Materials Science and Engineering, University of Utah, USA	Director, Formosa Advanced Technologies Co., Ltd.	N/A	N/A	N/A
Vice President	R.O.C	Joseph Wu	Male	2017.12.20	210,000	0.01	0	0.00	0	0.00	Vice President, Nanya Technology Corp. Master Degree in Material Engineering, National Taiwan University	(Note 3)	N/A	N/A	N/A
Vice President	R.O.C	Rex Chuang	Male	2017.12.20	193,000	0.01	0	0.00	0	0.00	Vice President, Nanya Technology Corp. Master Degree in Materials Engineering, San Jose State University, USA	(Note 3)	N/A	N/A	N/A
Vice President	R.O.C	Yau-Ming Chen (Note 2)	Male	2019.03.08	0	0.00	0	0.00	0	0.00	Vice President, Nanya Technology Corp. Department of Electrical Engineering, National Taiwan University	N/A	N/A	N/A	N/A
Assistant Vice President	R.O.C	Wesley Chang	Male	2013.04.01	41,042	0.00	0	0.00	0	0.00	Assistant Vice President, Nanya Technology Corp. Master Degree in Business Management, Chang Gung University	N/A	N/A	N/A	N/A
Assistant Vice President	R.O.C	Chi-Meng Su	Male	2013.02.20	0	0.00	0	0.00	0	0.00	Assistant Vice President, Nanya Technology Corp. Master Degree in Electronics Engineering, National Chiao Tung University	(Note 3)	N/A	N/A	N/A

Assistant Vice President	R.O.C	Mark Mao	Male	2017.12.20	96,000	0.00	0	0.00	0	0.00	Assistant Vice President, Nanya Technology Corp. Master Degree in Materials Science and Engineering, Columbia University, USA	N/A	N/A	N/A	N/A
Assistant Vice President	R.O.C	Jeff J.P. Lin	Male	2017.12.20	100,027	0.00	0	0.00	0	0.00	Assistant Vice President, Nanya Technology Corp. Ph.D. in Electrical Engineering, University of Texas at Austin, USA	N/A	N/A	N/A	N/A
Assistant Vice President	R.O.C	Rex Chen	Male	2017.12.20	21,000	0.00	0	0.00	0	0.00	Assistant Vice President, Nanya Technology Corp. Master Degree in International Business, Tamkang University	(Note 3)	N/A	N/A	N/A
Assistant Vice President	R.O.C	Chuan-Jen Chang	Male	2017.12.20	53,048	0.00	0	0.00	0	0.00	Assistant Vice President, Nanya Technology Corp. Master Degree in Electrical Engineering, State University of New York, USA	N/A	N/A	N/A	N/A
Finance Officer	R.O.C	Philip Jao	Male	2017.03.09	0	0.00	0	0.00	0	0.00	Executive Administrator of Nanya Technology Corp. Master Degree in Business Administration, University of Florida, USA Executive Master in Business Administration, National Taiwan University	N/A	N/A	N/A	N/A
Accounting Supervisor	R.O.C	Hung-Chi Kuo	Male	2010.12.01	70,000	0.00	0	0.00	0	0.00	Director, Nanya Technology Corp. Department of Accounting, National Chung Hsing University	(Note 3)	N/A	N/A	N/A

Note 1: Senior Vice President Lin-Chin Su was promoted to executive vice president on March 8, 2019.
Note 2: Assistant Vice President Yau-Ming Chen was promoted to vice president on March 8, 2019.
Note 3: Please refer to VIII. Other Special Notes (Directors, Supervisors and Presidents of NTC's Subsidiaries)

III. Remuneration of Directors, President, and Vice Presidents

(I) Remuneration of Directors

Unit: NT$ thousands; December 31, 2018

Title	Name	Director's Remuneration								Total Remuneration (A+B+C+D) as a % of Net Income (Note 2)		Compensation Received by a Director who is an employee of NTC or of NTC's consolidated subsidiaries								Total Compensation (A+B+C+D+E+F+G) as a % of Net Income		Compensation Paid to Directors from an Invested Company Other than NTC's Subsidiary
		Remuneration (A)		Retirement pension (B)		Director's remuneration (C) (Note 1)		Fees for conducting business (D)				Salary, bonuses and allowances (E)		Retirement pension (F)		Remuneration for employees (Note 3) (G)						
		The Company	Companies in the consolidated financial statements	The Company	Companies in the consolidated financial statements	The Company	Companies in the consolidated financial statements	The Company	Companies in the consolidated financial statements	The Company	Companies in the consolidated financial statements	The Company	Companies in the consolidated financial statements	The Company	Companies in the consolidated financial statements	The Company		Companies in the consolidated financial statements		The Company	Companies in the consolidated financial statements	
																Amount in cash	Amount in stock	Amount in cash	Amount in stock			
Chairman	Nan Ya Plastics Corp. Representative: Chia Chau, Wu	5,400	5,400	0	0	0	0	900	900	0.016	0.016	14,311	14,311	0	0	29,680	0	29,680	0	0.1278	0.1278	90
Director	Wen Yuan, Wong																					
Director	Susan Wang																					
Independent Director	Ching-Chyi Lai																					
Independent Director	Shu-Po Hsu																					
Independent Director	Tsai-Feng Hou																					
Director	Pei-Ing Lee																					
Director	Formosa Taffeta Co., Ltd. Representative: Shih-Ming Hsie																					
Director	Nan Ya Plastics Corp. Representative: Ming Jen, Tzou																					
Director	Otto Chang																					
Director	Nan Ya Plastics Corp. Representative: Wen-Yao Wang																					
Director	Nan Ya Plastics Corp. Representative: Lin-Chin Su																					

Note 1: Remuneration was approved by the board of directors.

Note 2: Net profit after tax means the Company's net profit after tax in the most recent year. If the financial statements were prepared according to IFRSs, net profit after tax mens the Company's net profit after tax on the financial statements.

Note 3: The amount of employee compensation is estimated.

Range of Remuneration

Range of Remuneration Paid to Directors	Name of Directors			
	Total amount for the 4 preceding remunerations (A+B+C+D)		Total amount for the 7 preceding remunerations (A+B+C+D+E+F+G)	
	The Company	Companies in the consolidated financial statements	The Company	Companies in the consolidated financial statements
Under NT$ 2,000,000	Wen Yuan, Wong, Susan Wang, Chia Chau, Wu, Ching-Chyi Lai, Shu-Po Hsu, Tsai-Feng Hou, Pei-Ing Lee, Shih-Ming Hsie, Ming Jen, Tzou, Otto Chang, Wen-Yao Wang, Lin-Chin Su, Nan Ya Plastics Corp., Formosa Taffeta Co., Ltd.	Wen Yuan, Wong, Susan Wang, Chia Chau, Wu, Ching-Chyi Lai, Shu-Po Hsu, Tsai-Feng Hou, Pei-Ing Lee, Shih-Ming Hsie, Ming Jen, Tzou, Otto Chang, Wen-Yao Wang, Lin-Chin Su, Nan Ya Plastics Corp., Formosa Taffeta Co., Ltd.	Wen Yuan, Wong, Susan Wang, Chia Chau, Wu, Ching-Chyi Lai, Shu-Po Hsu, Tsai-Feng Hou, Shih-Ming Hsie, Ming Jen, Tzou, Otto Chang, Wen-Yao Wang, Nan Ya Plastics Corp., Formosa Taffeta Co., Ltd.	Wen Yuan, Wong, Susan Wang, Chia Chau, Wu, Ching-Chyi Lai, Shu-Po Hsu, Tsai-Feng Hou, Shih-Ming Hsie, Ming Jen, Tzou, Otto Chang, Wen-Yao Wang, Nan Ya Plastics Corp., Formosa Taffeta Co., Ltd.
NT$2,000,000 (inclusive) to NT$5,000,000 (exclusive)				
NT$5,000,000 (inclusive) to NT$10,000,000 (exclusive)				
NT$10,000,000 (inclusive) to NT$15,000,000 (exclusive)				
NT$15,000,000 (inclusive) to NT$30,000,000 (exclusive)			Pei-Ing Lee, Lin-Chin Su	Pei-Ing Lee, Lin-Chin Su
NT$30,000,000 (inclusive) to NT$50,000,000 (exclusive)				
NT$50,000,000 (inclusive) to NT$100,000,000 (exclusive)				
NT$100,000,000 or more				
Total	14	14	14	14

(II) Remuneration of President and Vice Presidents

Unit: NT$ thousands; December 31, 2018

Title	Name	Salary (A)		Retirement pension (B)		Bonuses and allowances, etc. (C)		Employee remuneration (D) (Note)				Ratio of total compensation (A+B+C+D) to net income (%)		Compensation Paid to Directors from an Invested Company other than NTC's Subsidiary
		The Company	Companies in the consolidated financial statements	The Company	Companies in the consolidated financial statements	The Company	Companies in the consolidated financial statements	The Company		Companies in the consolidated financial statements		The Company	Companies in the consolidated financial statements	
								Amount in cash	Amount in stock	Amount in cash	Amount in stock			
President	Pei-Ing Lee	22,553	22,553	216	216	0	0	43,680	0	43,680	0	0.1688	0.1688	10
Senior Vice President	Lin-Chin Su													
Vice President	Joseph Wu													
Vice President	Rex Chuang													

Note: The amount of employee compensation is estimated.

Range of Remuneration

Range of Remuneration of President and Vice Presidents	Name of President and Vice Presidents	
	The Company	Companies in the consolidated financial statements
Under NT$ 2,000,000		
NT$2,000,000 (inclusive) to NT$5,000,000 (exclusive)		
NT$5,000,000 (inclusive) to NT$10,000,000 (exclusive)		
NT$10,000,000 (inclusive) to NT$15,000,000 (exclusive)	Joseph Wu, Rex Chuang	Joseph Wu, Rex Chuang
NT$15,000,000 (inclusive) to NT$30,000,000 (exclusive)	Pei-Ing Lee, Lin-Chin Su	Pei-Ing Lee, Lin-Chin Su
NT$30,000,000 (inclusive) to NT$50,000,000 (exclusive)		
NT$50,000,000 (inclusive) to NT$100,000,000 (exclusive)		
NT$100,000,000 or more		
Total	4	4

Employee Compensation of Executive Officers

Unit: NT$ thousands; December 31, 2018

Item	Title	Name	Amount in stock (Note 1)	Amount in cash (Note 1)	Total	Percentage of total bonuses to net profit after tax (%) (Note 2)
Manageial Officers	President	Pei-Ing Lee	0	99,180	99,180	0.252
	Senior Vice President	Lin-Chin Su				
	Vice President	Joseph Wu				
	Vice President	Rex Chuang				
	Assistant Vice President	Yau-Ming Chen				
	Assistant Vice President	Wesley Chang				
	Assistant Vice President	Chi-Meng Su				
	Assistant Vice President	Mark Mao				
	Assistant Vice President	Jeff J.P. Lin				
	Assistant Vice President	Rex Chen				
	Assistant Vice President	Chuan-Jen Chang				
	Finance Officer	Philip Jao				
	Accounting Supervisor	Hung-Chi Kuo				

Note 1: The amount of employee compensation is estimated.
Note 2: Net income is NTC's net income after tax.

(III) Comparison and description of Remuneration for Directors, President and Vice Presidents in the Most Recent Two Fiscal Years and Remuneration Policy for Directors, President and Vice Presidents. The ratio of total remuneration paid by the Company and by all companies included in the consolidated financial statements for the two most recent fiscal years to Directors, President and Vice Presidents of the Company, to the net income.

1. Total remuneration as a percentage of net profit after tax

Unit: %

Title \ Year	2018	2017
Director (Note)	0.1278	0.1004
President and Vice President	0.1688	0.1344

Note: Remuneration for Directors includes compensation received by a Director who is an employee of NTC.

Description:

(1) Compared with 2017, director's remuneration accounted for a higher percentage of net profit after tax in 2018 due to the increase in employee bonuses.

(2) Compared with 2017, remuneration to the president and vice presidents accounted for a higher percentage of net profit after tax in 2018 due to the increase in employee bonuses.

2. The policies, standards, and portfolios for the payment of remuneration, the procedures for determining remuneration, and the correlation with risks and business performance.

(1) NTC's Independent Directors receives base compensation monthly, and traffic fares based on attendances of Board meetings.

(2) The remuneration of NTC's Directors is determined in accordance with Article 16 of NTC's Articles of Incorporation, which stipulates that: "The Board of Directors is authorized to determine the compensation for the Directors, according to their extent and value of the contribution provided for the Company and the common compensation standards of the same industry.", and traffic fares are based on attendances of Board meetings.

(3) The remuneration of NTC's President and Vice Presidents is determined in accordance with NTC's Articles of Incorporation and Article 29 of Company Act, and their monthly base compensation is adjusted based on related standards every year.

(4) NTC's Compensation Committee reviews remuneration policies, standards, structures, systems, and adjustments for Directors and executive officers, and reports to NTC's Board for approval.

IV. Implementation of Corporate Governance

(I) Board of Directors' Meeting Status

A total of 6 meetings of the board of directors were held in 2018. Director attendance is shown as follows:

Title	Name	Attendance in person	By Proxy	Attendance rate(%)	Remarks
Chairman	Nan Ya Plastics Corp. Representative: Chia Chau, Wu	6	0	100	
Director	Wen Yuan, Wong	4	0	66.7	
Director	Susan Wang	2	2	33.3	
Independent Director	Ching-Chyi Lai	6	0	100	
Independent Director	Shu-Po Hsu	4	2	66.7	
Independent Director	Tsai-Feng Hou	6	0	100	
Director	Pei-Ing Lee	6	0	100	
Director	Formosa Taffeta Co., Ltd. Representative: Shih-Ming Hsie	4	0	66.7	
Director	Nan Ya Plastics Corp. Representative: Ming Jen, Tzou	6	0	100	
Director	Otto Chang	6	0	100	
Director	Nan Ya Plastics Corp. Representative: Wen-Yao Wang	0	6	0	
Director	Nan Ya Plastics Corp. Representative: Lin-Chin Su	6	0	100	

Other mentionable items:

I. If any of the following circumstances occur, the dates of the meetings, sessions, contents of motion, all Independent Directors' opinions and the Company's response should be specified:

(I) Items specified in Article 14-3 of the Securities and Exchange Act: N/A.

(II) Other matters involving objections or expressed reservations by independent directors that were recorded or stated in writing that require a resolution by the board of directors: None.

II. Implementation of Directors Avoiding Conflict of Interests towards Resolution:

(I) Name: Pei-Ing Lee and Otto Chang.

Resolutions adopted: The first board meeting in 2018 was convened on February 26, 2018, to discuss the proposed disposal of shares of PieceMakers Technology, Inc.

Causes of interest conflict avoidance and voting status: The above directors were the chairperson and director of PieceMakers Technology, Inc., so they recused themselves from the discussion and vote.

(II) Name: Pei-Ing Lee and Otto Chang.

Resolutions adopted: The first board meeting in 2018 was convened on February 26, 2018, to discuss the proposed bonuses for managers in 2017.

Causes of interest conflict avoidance and voting status: The above directors were the captioned interested party, so they recused themselves from the discussion and vote.

(III) Name: Shih-Ming Hsie.

Resolutions adopted: The fourth (extraordinary) board meeting in 2018 was convened on July 20, 2018, to discuss the proposed acquisition of no more than 84,022,000 shares of Formosa Advanced Technologies Co., Ltd. via a block trade in the stock market.

Causes of interest conflict avoidance and voting status: The above directors were the chairperson and corporate representative of Formosa Advanced Technologies Co., Ltd., so they recused themselves from the discussion and vote.

(IV) Name: Pei-Ing Lee and Otto Chang.

Resolutions adopted: The fifth board meeting in 2018 was convened on August 10, 2018, to discuss the proposed salary raise for managers in 2018.

Causes of interest conflict avoidance and voting status: The above directors were the captioned interested party, so they recused themselves from the discussion and vote.

III. An evaluation of the goals set for strengthening the functions of the Board and implementation status during the current and immediately preceding fiscal years:

(I) The functions of the Board of Directors of the Company are sound and sufficient, meeting the current requirements of the Company's corporate governance.

(II) The Company has elected independent directors to improve its supervisory function and strengthen its management function for the implementation of corporate governance.

(III) In accordance with the provisions of the securities regulatory authority, the Company passed the resolution of the Board of Directors on September 28, 2011 and set up the Compensation Committee.

(IV) In accordance with the provisions of the securities regulatory authority, the Company passed the resolution of the Board of Directors on June 22, 2016 and set up the Audit Committee to submit the resolutions of the Board of Directors to the implementation of corporate governance.

(II) Audit Committee Meeting Status

A total of 5 meetings of the Audit Committee were held as of December 31, 2018. The attendance of the independent directors was as follows:

Title	Name	Attendance in person	By Proxy	Attendance rate(%)	Remarks
Convener	Ching-Chyi Lai	5	0	100	
Committee member	Shu-Po Hsu	3	2	60	
Committee member	Tsai-Feng Hou	5	0	100	

Other mentionable items:

I. The operation of the Audit Committee shall, if any of the following circumstances, specify the date of the Board, date, contents, results of the Audit Committee resolutions and the handling of the opinions of the Audit Committee as below:

(I) The matters listed in Article 14-5 of the Securities Exchange Act.

(II) Except previous matters, the other approved by the Audit Committee, and by more than two-thirds of all directors agreed to the matter.

Board of Director	Content	Matters specified in Article 14-5 of Securities and Exchange Act	The other approved by the Audit Committee, and by more than two-thirds of all directors agreed to the matter
February 26, 2018 1st meeting in 2018	1.To approve the Company's 2017 financial statements. 2.To formulate the Company's "Internal Control System Statement" 3.To propose financial derivative transactions. 4.To propose a disposal of shares of PieceMakers Tech Inc.	✓	—
	Audit Committee Resolution on February 26, 2018: All attendants agreed to pass. The Company's handling of the opinions of the Audit Committee: Some directors recused themselves from the fourth case (Please refer to 2. Implementation of Directors Avoiding Conflict of Interests towards Resolution), the remaining directors approved the proposals.		
May 9, 2018 2nd meeting in 2018	1.To amend the "Internal Control Systems" and "Internal Audit Implementation Rules" of the Company's stock affair department.	✓	—
	Audit Committee Resolution on May 9, 2018: All attendants agreed to pass. The Company's handling of the opinions of the Audit Committee: All Directors in attendance have agreed to pass.		
July 20, 2018 4th meeting in 2018	1.To discuss the proposed acquisition of no more than 84,022,000 shares of Formosa Advanced Technologies Co., Ltd. via a block trade in the stock market.	✓	—
	Audit Committee Resolution on July 20, 2018: All attendants agreed to pass. The Company's handling of the opinions of the Audit Committee: Except from some directors that recused themselves (Please refer to 2. Implementation of Directors Avoiding Conflict of Interests towards Resolution), the remaining directors approved the proposals.		

August 10, 2018 5th meeting in 2018	1.To approve the Company's 2018Q2 financial statements.	✓	—
	Audit Committee Resolution on August 10, 2018: All attendants agreed to pass. The Company's handling of the opinions of the Audit Committee: Noted by all directors in attendance.		
November 12, 2018 6th meeting in 2018	1.To propose an investment to establish a wholly-owned overseas subsidiary. 2.To propose a transfer of the Company's shares to employees. 3.To propose a share buyback to protect the Company's credibility and shareholders' rights and interests. 4.To approve the Company's internal audit plan in 2019.	✓ ✓ ✓	—
	Audit Committee Resolution on November 12, 2018: All attendants agreed to pass. The Company's handling of the opinions of the Audit Committee: All Directors in attendance have agreed to pass.		

II. The Independent Directors' avoidance of interest motion should indicate the names of the Independent Directors, content of the motion and reasons of avoidance of interest as well as the involvement in voting: None.

III. The communication between the Independent Director, internal audit officer of the Company's and CPA. (including major matters, methods and results of communication on the Company's financial and business conditions)

(I) The communication between the Independent Directors and the internal audit officer of the Company

1. The amendment of the "Internal Control Systems" and "Internal Audit Implementation Rules" of the Company shall be subject to the approval of the Audit Committee and shall be submitted to the Board of Directors for a resolution.
2. The Company's annual audit plan shall be subject to the approval of the Audit Committee and shall be submitted to the Board of Directors for a resolution starting in 2018.
3. The "Internal Control System Statement" of the Company shall be subject to the approval of the Audit Committee and shall be submitted to the Board of Directors for a resolution.
4. The audit office of the Company regularly submits the internal audit report to the Independent Directors for review.
5. The Company's internal audit supervisor and independent directors shall communicate on the internal audit execution status and internal control operation status of the company at least once a quarter. In addition to the audit report on the status of correction of defects and irregularities of internal control systems, the report shall be continued and follow up reminders to determine relevant units to take appropriate improvement measures.

(II) The communication between the Independent Directors and the CPA

1. The Audit Committee of the Company is composed of all Independent Directors, the CPA has presented the findings or the comments for the financial reports and the impact of the amendment of the relevant laws and regulations.
2. The Independent Directors could contact CPA directly by case.

(III) Summary of communication between independent directors, the internal audit supervisor of the Company and CPA in 2018

Date	Meeting	Object	Content	Result
February 8, 2018	CPA	Internal audit supervisor	1. To report on the implementation progress of the Company's internal audit plan in December 2017. 2. To formulate the Company's "Internal Control System Statement".	Well
February 26, 2018	Audit Committee	CPA	To explain audit opinions on the implementation of IFRS No. 16 Leases and the 2017 financial statements.	Well
February 26, 2018	Audit Committee	Internal audit supervisor	To formulate the Company's "Internal Control System Statement".	To submit to the Board of Directors for a resolution
February 26, 2018	Board of Directors	Internal audit supervisor	To report on the implementation progress of the Company's internal audit plan in December 2017.	Noted
May 2, 2018	Pre-meeting	Internal audit supervisor	1. To report on the implementation progress of the Company's internal audit plan in 2018Q1. 2. To amend the "Internal Control Systems" and "Internal Audit Implementation Rules" of the Company's stock affair department. 3. To report the progress of correcting defects and irregularities in the internal control system in 2017.	Well
May 9, 2018	Audit Committee	CPA	To explain audit opinions on the financial statements for 2018Q1.	Well
May 9, 2018	Audit Committee	Internal audit supervisor	1. To report on the implementation progress of the Company's internal audit plan in 2018Q1. 2. To amend the "Internal Control Systems" and "Internal Audit Implementation Rules" of the Company's stock affair department.	Noted To submit to the Board of Directors for a resolution
May 9, 2018	Board of Directors	Internal audit supervisor	To report on the implementation progress of the Company's internal audit plan in 2018Q1.	Noted
May 24, 2018	Board of Directors	Internal audit supervisor	To report the progress of correcting defects and irregularities in the internal control system in 2017.	Noted
July 20, 2018	Pre-meeting	Internal audit supervisor	To report on the implementation progress of the Company's internal audit plan in 2018Q2.	Well
August 10, 2018	Audit Committee	CPA	To explain audit opinions on the financial statements for 2018Q2.	Well
August 10, 2018	Audit Committee	Internal audit supervisor	1. To report the progress of correcting defects and irregularities in the internal control system in 2017. 2. To report on the implementation progress of the Company's internal audit plan in 2018Q2.	Noted

Date	Meeting	Object	Content	Result
August 10, 2018	Board of Directors	Internal audit supervisor	To report on the implementation progress of the Company's internal audit plan in 2018Q2.	Noted
October 24, 2018	Pre-meeting	Internal audit supervisor	1. To report on the implementation progress of the Company's internal audit plan in 2018Q3. 2. To approve the Company's internal audit plan in 2019.	Well
November 12, 2018	Audit Committee	CPA	To explain audit opinions on the financial statements for 2018Q3.	Well
November 12, 2018	Audit Committee	Internal audit supervisor	1. To report on the implementation progress of the Company's internal audit plan in 2018Q3. 2. To approve the Company's internal audit plan in 2019.	Noted To submit to the Board of Directors for approval
November 12, 2018	Board of Directors	Internal audit supervisor	To report on the implementation progress of the Company's internal audit plan in 2018Q3.	Noted

IV. Key tasks of the Audit Committee this year:

The Audit Committee will continue supervise the Company in 2019 in accordance with the Charter of the Audit Committee and relevant laws and regulations, including:

1. Fair presentation of the financial reports
2. The hiring (or dismissal), independence, and performance of certificated public accountants.
3. The effective implementation of the internal control system
4. Compliance with relevant laws and regulations
5. Management of the Company's current or potential risks.

(III)Corporate Governance Implementation as Required by the Taiwan Financial Supervisory Commission

Assessment item	Implementation status (Note)			Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and reasons
	Yes	No	Explanation	
I. Does Company follow “Taiwan Corporate Governance Implementation” to establish and disclose its corporate governance practices?	✓		The Company's board of directors approved the establishment of the "Nanya Corporate Governance Principles" on November 10, 2014, and disclosed the principles on the website designated by the competent authority of securities and the Company website.	Complies with Article 1-2 of the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies. The contents were slightly adjusted based on our practices, but still comply with the spirit of the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies.
II. The Company's shareholding structure and shareholders' rights and interests (I) Does the Company adopt internal procedures for appropriate handling shareholders' suggestions, doubts, disputes and litigation matters, and implementation in accordance with procedures?	✓		The Company has designated a spokesman and deputy spokesman, and established the investor relationship department to handle shareholders’ suggestions and complaints.	Complies with Article 13 of the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies.

Assessment item	Implementation status (Note)			Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and reasons
	Yes	No	Explanation	
(II) Does the Company monitoring the status of major shareholders with control over the Company and their ultimate control persons?	✓		The Company has kept monitoring the changes in shareholdings of Directors, Supervisors, Managerial Officers and shareholders with more than 5% of total outstanding shares. Directors, managers, and shareholders with 10% or more shares complete reporting procedures on the website designated by the competent authority of securities each month.	Complies with Article 19 of the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies.
(III) Does the Company set up and execute the risk management and firewall between the Company and its affiliates?	✓		The personnel and property of the Company has been separated definitely from other affiliates without any abnormal transactions. All transactions with affiliated enterprises are conducted on a legitimate basis and at arm's length. We have also set a limit on the scope and amount of endorsements and guarantees that can be provided to other companies. For banks, customers, and suppliers, we make a comprehensive risk arrangement through checking from computer and stop paying if any problems from same supplier. The Company has the internal prohibition with the Company's property, confidential information, or unable to obtain non-public information in the market to acquire its own illegitimate profits in the "Guidelines and Regulations Rule" of the Company.	Complies with Articles 14 -17 of the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies.
(IV) Does the Company establish internal rules prohibiting Company insiders from trading securities using information not disclosed to the market?	✓		We established Personnel Management Rules and Guidelines for the Prevention of Insider Trading to prohibit insiders from illegally profiting from trades based on information not yet disclosed to the public, and we educate employees to comply with relevant regulations.	Complies with Paragraph 3, Article 10 of the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies.

Assessment item	Implementation status (Note)			Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and reasons
	Yes	No	Explanation	
III. Composition and duties of the Board of Directors (I) Does the Company set up the various policies for the composition of Board of Directors, and to implement the policies?	✓		The Nanya Corporate Governance Principles stipulate that the diversity of board members must be given due consideration, and board members must have the necessary knowledge, skill, and experience to perform their duties, regardless of gender, race, and nationality. In order to achieve the goals of corporate governance, the board as a whole shall have the following abilities 1. Business judgment. 2. Ability to perform accounting and financial analysis. 3. Ability to manage a business. 4. Ability to handle crisis management. 5. Knowledge of the industry. 6. An international market perspective. 7. Leadership. 8. Decision-making ability. The Directors of the Company possess various professional specialties and substantial experiences, there are currently 2 female directors (16.7% of total board), directors of the qualifications, gender, professional qualifications and work experience, please refer to the corporate governance report 2. Directors and Management Team. Independent directors are in compliance with the Code of Practice for Independent Directors of FSC. For each director, please refer to the Participation and Corporate Governance Report (I) Director's Information for academic qualifications, gender, professional qualifications and work experience.	Complies with Article 20 of the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies.

<table>
<tr><th rowspan="2">Assessment item</th><th colspan="3">Implementation status (Note)</th><th rowspan="2">Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and reasons</th></tr>
<tr><th>Yes</th><th>No</th><th>Explanation</th></tr>
<tr><td></td><td></td><td></td><td>
<table>
<tr><th>Title</th><th>Name</th><th>Gender</th><th>Management</th><th>Leadership decision</th><th>DRAM Industry</th><th>International outlook</th><th>Accounting Analysis</th></tr>
<tr><td>Chairman</td><td>Chia Chau, Wu</td><td>Male</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td></tr>
<tr><td>Director</td><td>Wen Yuan, Wong</td><td>Male</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td></tr>
<tr><td>Director</td><td>Susan Wang</td><td>Female</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td></tr>
<tr><td>Independent Director</td><td>Ching-Chyi Lai</td><td>Male</td><td>✓</td><td>✓</td><td></td><td>✓</td><td>✓</td></tr>
<tr><td>Independent Director</td><td>Shu-Po Hsu</td><td>Male</td><td>✓</td><td>✓</td><td></td><td>✓</td><td>✓</td></tr>
<tr><td>Independent Director</td><td>Tsai-Feng Hou</td><td>Female</td><td>✓</td><td>✓</td><td></td><td>✓</td><td>✓</td></tr>
<tr><td>Director</td><td>Pei-Ing Lee</td><td>Male</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td></tr>
<tr><td>Director</td><td>Shih-Ming Hsie</td><td>Male</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td></tr>
<tr><td>Director</td><td>Ming Jen, Tzou</td><td>Male</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td></tr>
<tr><td>Director</td><td>Otto Chang</td><td>Male</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td></tr>
<tr><td>Director</td><td>Wen-Yao Wang</td><td>Male</td><td>✓</td><td>✓</td><td></td><td>✓</td><td></td></tr>
<tr><td>Director</td><td>Lin-Chin Su</td><td>Male</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td></tr>
</table>
</td><td></td></tr>
<tr><td>(II) Does the Company establish other functional committee voluntarily, besides the remuneration committee and audit committee?</td><td></td><td>✓</td><td>NTC has established remuneration committee that approved by the Board of Directors on August 26, 2011. In addition to establish the audit committee and approved by the Board of Directors on June 22, 2016. The company has not established other functional committee</td><td>Complies with Article 28 and 28-1 of the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies.</td></tr>
<tr><td>(III) Does the Company set up its evaluation standard for Board of Director performance, and to perform its evaluation regularly?</td><td></td><td>✓</td><td>The Company currently has not established board performance evaluation standards, but will begin conducting board performance evaluations in 2020. We established the Regulation and Procedure for Board of Directors Meetings, and have convened board meetings accordingly. Our directors all understand our goals and operational and financial situation. The board of directors is functioning properly and maintains effective</td><td>Does not comply with Paragraph 2, Article 37 of the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies; compliance to be</td></tr>
</table>

Assessment item	Implementation status (Note)			Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and reasons
	Yes	No	Explanation	
(IV) Does the Company evaluate the independence and suitability of the CPA regularly?	✓		communication with our management team. The Company regularly evaluates the independence and qualification of the external auditors annually, the scope and reputation of the auditing firm, provides the number of continuous years of auditing services, the nature and extent of services provided by non-auditors, the auditing fees, industry evaluation, whether there were any legal suits or disputes with competent authorities, investigated cases, the quality of auditing services, whether there is regular maintenance, and the level of interaction internal between the management and auditing management, and asks the auditing CPA to provide the related information based on the evaluated index. The evaluation results were reported to the Board on February 27, 2019.	achieved in 2020. Complies with Article 29 of the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies.
IV. Have the listed and OTC Company setup the Corporate Governance department or someone to deal with corporate governance related matters?	✓		We plan to establish a "Corporate Governance Supervisor" before the end of June 2019. The Corporate Governance Supervisor will be the highest level supervisor responsible for corporate governance related affairs, and will be required to receive 18 hours of training within 1 year after being appointed. The corporate governance supervisor oversees corporate governance related affairs handled by the President’s Office, including convening board meetings and shareholders' meetings in accordance with the law, preparing proceedings for board meetings and shareholders' meetings, assisting with the appointment and continuing education of directors, providing data required by directors to perform their duties, assisting directors with complying with the law, and handling company registration and change of	Complies with Article 3-1 of the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies.

Assessment item	Implementation status (Note)			Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and reasons
	Yes	No	Explanation	
			registration.	
V. Does the Company build channels of communication with its stakeholders and establish a designated section for stakeholders on the Company website to respond stakeholders' CSR concerns?	✓		1. Depending on the situation, the President's Office is responsible for communicating with stakeholders and the spokesperson or deputy spokesperson serve as external communication channels. 2. The Company will comply with relevant regulations to establish a designated section for stakeholders on the company website to maintain good communication with our stakeholders. Stakeholders and investors can communicate with the company by telephone, letters, facsimile, and e-mails at any time if needed. 3. NTC responds to stakeholders' concerns at the appropriate time through the following channels: (1) Shareholder: The general shareholders can learn about the Company's operations through the annual shareholders' meetings and annual reports. They can usually be queried by telephone or email. For corporate shareholders, there are quarterly legal briefings and global conference calls, participation in investment seminars at home and abroad, participation in brokers' forums for unscheduled investors, telephone interviews, or visits. (2) Employee: Issues such as workplace safety, employee benefits, human rights protection, and employment relationships include corporate announcements, human resources service representatives, and regular meetings (such as the general manager's meal narration, staff meetings, production	Complies with Article 47 of the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies.

Assessment item	Implementation status (Note)			Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and reasons
	Yes	No	Explanation	
			department TA season meeting). A variety of education and training, irregular communication meetings, employee relations department channels of communication, suggestion boxes, company publications, electronic platforms, questionnaires (such as education and training satisfaction, catering satisfaction) and other channels to communicate with employees. (3) Client: Respond to customer-focused product quality, after-sales service and other issues by visiting customers, customer meetings, maintenance services, dealer meetings, regular technical support, customer education and training, and customer satisfaction surveys. In addition, the website lists the sales service line and e-mail address, and handles customer complaints through the "customer opinion response form" and "customer complaint processing form". (4) Supplier: The company upholds the spirit of sustainable development and adheres to the principle of fair trade. It strives to require the compliance of manufacturers with environmental protection, work safety, and human rights standards. It conducts public tendering through the Formosa Plastics Network electronic trading platform procurement contracting system, and regularly organizes company briefing sessions to strengthen the two-way Communication and advocacy. In addition, it provides an instant supplier information platform, regular face-to-face review reports or meetings, supplier surveys, audits and	

Assessment item	Implementation status (Note)			Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and reasons
	Yes	No	Explanation	
			guidance, and supplier delivery stability and quality assessment. (5) Government: Communication channels include correspondence, regulatory briefings, company financial reports, relevant information required by competent authorities and regulations, and communication with the competent authorities through computer associations, etc. (6) Community: Through the announcement on the website of the company to inform the community and the establishment of society within the company to participate in community volunteer activities, launching donation activities to participate after the disaster. There is a reflection mailbox (audit@ntc.com.tw) to provide communication channels for community residents and the factory has a management office to govern and communicate with the community. (7) Media: Communication methods include press releases, quarterly press conferences, company official website, and interviews with the spokesperson.	
VI. Does the Company appoint a professional stock agency to deal the shareholders affairs?		✓	The Company's shareholders' meeting currently operates on its own. However, relevant processes are handled strictly according to regulations by the special stock affairs department, legal affairs department, president's office; this allows the shareholders' meeting to be convened effectively, safely, and according to the law and with proper protection to shareholders' rights.	Does not comply with Paragraph 1, Article 7 of the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies, but it

Assessment item	Implementation status (Note)			Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and reasons
	Yes	No	Explanation	
				does not affect the operations of the shareholders' meeting.
VII. Information disclosure (I) Does the Company establish a corporate website to disclose information regarding the Company's financials, operation and corporate governance	✓		The Company has disclosed information regarding the Company's financials, operation and corporate governance on its corporate website in Chinese and English. Company website: http: //www.nanya.com	Complies with Article 57 and 59 of the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies.
(II) Does the Company adopt other disclosure methods (i.e., setting of English website, appointed personnel responsible for information gathering and disclosing, implement of spokesperson system, and uploading the materials of investor conferences on website)?	✓		The Company has implemented a spokesperson and substitute spokesperson system as well as a designated personnel in the president’s office responsible for gathering and disclosing the Company’s information as well as providing the spokesperson and relevant departments with answers to inquiries by stakeholders and the competent authorities.	Complies with Article 55 - 56 of the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies.

Assessment item	Implementation status (Note)			Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and reasons
	Yes	No	Explanation	
VIII. Does the Company have any other helpful information regarding corporate governance (i.e., the interest and care of employees, investor relations, relationship with vendors, stakeholders' rights, attendance of training courses by Directors and Supervisors, the implementation status for a risk management policy and risk measurement, the implementation status of protection for consumers or customers and liability insurance for Directors and Supervisors with respect to their liabilities resulting from exercising their duties)?	✓		(I) Employee rights and interests: The Company keeps good relationships with employees and pay attention for rights of expressing opinions and suggestions. We set boxes for employees to provide their opinions at the entry of working place and through computer system as well. All are replied by designated person and we make policy of abnormal event arrangement to the protection. At the same time, department heads attend regular supervisory board meetings and labor-management meetings to fully communicate with employees. We first listen to the opinions of unions regarding major labor-management issues, and highest level supervisors negotiate with the unions to reach an agreement, ensuring harmonious labor relations and the Company's sustainable development. (II) Care for employees: With a view to taking care of employee physical and mental health, the Company has budgeted every year for Chang Gung Hospital to performs health checkups for employees; in addition to inspection items stipulated by law, it has added cancer screening for Alpha-Fetoprotein, AFP and carcinoembryonic antigen, CEA. This allows employees to understand and cherish their health. On the part of diet, we make health regulations to exam the source, people, storage, usage and clearance to protect employee’s health and safety. Please refer to 5. Labor Relations in V. Business Overview for employee benefits. (III) Investor relations: The Company's President's Office and Stock Affairs Department severe as a communication	Complies with Article 51-54 of the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies.

Assessment item	Implementation status (Note)			Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and reasons
	Yes	No	Explanation	
			channel between the Company and shareholders. With regard to information transparency, we provide investor information in an investor relations section on our website. We take part in investment forum held by foreign broker and hold seminars with domestic and foreign periodically. (IV) Supplier relations: The spirit of purchasing activities of the company is creating a fair and competitive environment and seeking for qualified vendors to coordinate with each department by reasonable price, material, equipment and engineering. 1. Open and fair procurement mechanism: We organize "open bids" through the procurement system of Formosa Technology E-Market Place, and provide vendors with online inquiry, quotation, negotiation, purchase order, delivery, and payment progress inquiry functions. All information is encrypted via electronic certificates and protected by a firewall to ensure the safety of all data being transferred. Vendors can check requests for quotation online at any time and place, and provide quotations accordingly, significantly increasing operating efficiency while saving time and money. It also reduces operating cost and increases sales profits. After the computer opens all bids for a request for quotation, the vendor that bids the lowest price with a delivery time and quality that meet requirements will be given priority, this way both buyer and seller can achieve their goals in a harmonious atmosphere. 2. Complete supplier management: We implement comprehensive supplier management and	

Assessment item	Implementation status (Note)			Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and reasons
	Yes	No	Explanation	
			assessment to achieve stable material quality and delivery, and also ensure the quality and progress of construction. All suppliers are assessed and graded when they register, and any late delivery (construction), poor quality, or violation of labor safety by suppliers are automatically included in their assessment records. This eliminates bad suppliers and maintains long-term relationships with good suppliers. 3. Win-win through electronic transactions: We combined the ERP computer management system that we have perfected over the years with our quantified, open, and transparent online procurement mechanism to create a high quality, safe, convenient, and fast electronic trading environment. We have expanded to other vertical and horizontal industries to share the "Formosa Plastics Experience" with all enterprises in an electronic era. At present, our supply chain consists of over 10,000 suppliers and contractors who share the business opportunities and economic benefits of open transactions on this electronic transaction platform. 4. Sustainable supplier management: (1) We comply with the RBA® Code of Conduct in our pursuit of corporate sustainability, and have committed to ethical corporate management. Besides strengthening corporate governance and ensuring shareholder equity, we strive to create a working environment with harmony, health, and safety, and develop towards green technology and environmental sustainability. We invest in social welfare to	

Assessment item	Implementation status (Note)			Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and reasons
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			meet the expectations of society and stakeholders, and also to fulfill our CSR. (2) Suppliers are important members to realizing the abovementioned core values. We require suppliers (including contractors) to comply with the RBA® Code of Conduct in operations and activities related to labor health and safety, environmental protection, and code of business conduct. We refer to suppliers' labor health and safety, environment, business ethics, and management system standards to contribute to improving the business environment for the overall electronics industry. We communicate elements of human rights and ethical conduct with our suppliers, and ensure that their operations or activities comply with our requirements on employee and ethical conduct by requiring them to sign a letter of commitment, fill out self-assessment questionnaires, and conduct on-site audits. (V) Stakeholder interests: The company keeps going on own business and performance and achieve mission of caring employees, customer service, and reward shareholder. In addition to better performance in the industry, the company pursues good business performance and strives to achieve its mission to "care for its employees, serve its customers, and give back to shareholders." To that end, it bears a responsibility to properly care for its shareholders, customers, suppliers, employees, and society. In addition to complying with laws and the norms of business ethics, the Company has maintained international standards to enhance competitiveness; created shareholders' rights; pay	

<table>
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<tr><th>Yes</th><th>No</th><th>Explanation</th></tr>
<tr><td></td><td></td><td></td><td>equal attention to economic, environmental and social aspects; promote green construction and procure green or energy-conserving materials and supplies; conserve energy and reduce carbon emissions; pay attention to social issues; invest in community or social welfare actions suitable for businesses, and thus extend care for society.

(VI) Advanced studies of directors and supervisors:
<table>
<tr><th>Name of Directors</th><th>Course time</th><th>program</th><th>organizer</th><th>hours</th></tr>
<tr><td>Wen Yuan, Wong</td><td rowspan="7">2018.11.16</td><td rowspan="2">What benefits do social media analysis provide to organizations</td><td rowspan="2">Securities and Futures Institute</td><td rowspan="7">6</td></tr>
<tr><td>Chia Chau, Wu</td></tr>
<tr><td>Tsai-Feng Hou</td><td rowspan="5">Corporate Ethics and Innovative and Sustainable Management Concepts</td><td rowspan="5">Dharma Drum Mountain Humanities and Social Improvement Foundation</td></tr>
<tr><td>Shih-Ming Hsie</td></tr>
<tr><td>Ming Jen, Tzou</td></tr>
<tr><td>Otto Chang</td></tr>
<tr><td>Lin-Chin Su</td></tr>
<tr><td>Pei-Ing Lee</td><td>2018.10.15</td><td>12th Taipei Corporate Governance Forum</td><td>Financial Supervisory Commission</td><td>6</td></tr>
<tr><td rowspan="2">Wen-Yao Wang</td><td rowspan="2">2018.11.23</td><td>Legal Issues Requiring the Attention of Directors and Supervisors of Public Companies</td><td rowspan="2">Securities and Futures Institute</td><td rowspan="2">6</td></tr>
<tr><td>How Directors and Supervisors of TWSE/TPEx Listed Companies Perform Their Duties</td></tr>
</table></td><td>Complies with Article 40 of the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies.</td></tr>
</table>

Assessment item	Implementation status (Note)			Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and reasons
	Yes	No	Explanation	
			<table><tr><td rowspan="6">Ching-Chyi Lai</td><td>2018.03.05</td><td>Forum on 100% e-voting and increasing company value</td><td>Taiwan Depository & Clearing Corporation</td><td rowspan="6">24</td></tr><tr><td>2018.04.20</td><td>2018 Insider Trading Prevention Meeting</td><td>Securities and Futures Institute</td></tr><tr><td>2018.07.24</td><td>Seminar on laws concerning insider trading</td><td>Securities and Futures Institute</td></tr><tr><td>2018.10.15</td><td>12th Taipei Corporate Governance Forum</td><td>Financial Supervisory Commission</td></tr><tr><td rowspan="2">2018.11.16</td><td>What benefits do social media analysis provide to organizations</td><td>Securities and Futures Institute</td></tr><tr><td>Corporate Ethics and Innovative and Sustainable Management Concepts</td><td>Dharma Drum Mountain Humanities and Social Improvement Foundation</td></tr><tr><td rowspan="2">Shu-Po Hsu</td><td>2018.06.27</td><td>2018 Insurance Industry Corporate Governance Seminar</td><td>Taiwan Insurance Institute</td><td rowspan="2">12</td></tr><tr><td>2018.10.15</td><td>12th Taipei Corporate Governance Forum</td><td>Financial Supervisory Commission</td></tr></table> (VII) Implementation of risk management policies and risk assessment standards: 1. The Company's risk management steering committee is the highest decision-making unit for risk management and bears the ultimate responsibility for the operation of the Company's risk management system. The steering committee is chaired by the president		Complies with Article 16 of the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies.

Assessment item	Implementation status (Note)			Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and reasons
	Yes	No	Explanation	
			and is responsible for formulating risk management policies, structure, and organizational functions. 2. The steering committee will meet quarterly to review the performance of risk management operations and operational continuity plans of each functioning committee to ensure the suitability, relevance and effectiveness of its ongoing operations. The risk management steering committee has set up five risk management committees for operations, safety, legal affairs, finance, and security, in accordance with the Company's operational goals. Each committee, in addition to collecting internal and external environmental risk information and performing daily risk monitoring, the risk level is assessed according to the assessed items, timely improvement measures are taken, and the executive results are reported to senior managers quarterly. 3. The continuous process of risk management is as follows: background data collection → risk analysis → operational impact analysis → confirmation of control mechanisms and setting of regulatory indicators → risk assessment → prevention and improvement measures → selection of recovery plan and strategy. 4. Emergency response mechanism and measures: The company has a complete set of operational norms and methods for handling emergency anomalies, covering manufacturing, supply chain and warehousing, information security, human resources and other aspects, and established related specifications for project update and operational continuity plan	

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			in the year of 2017(BCP/BCM), make it more complete and in line with the practice in the factory. Through the pre-sufficient plan, can immediately take response measures in the event of an emergency, mitigate the impact of the incident and quickly recover, ensure the normal operation to meet client needs. For example, raw material shortage, affecting 10% of output (such as earthquakes, typhoons, toxic gases, fire alarms, labor shortages, etc.), abnormal utilities systems, abnormal automation systems, abnormal outsourcing capacity, and large number of customer returns, all have specific treatment steps and improvement measures. In addition, the emergency response to personnel safety, such as fire alarm, gas leakage, leakage, odor, earthquake and radiation leakage, emergency response measures, notification procedures and command systems are all in accordance with safety and hygiene relevant regulations and drilled regularly. 5. Risk management education and training: In addition to the board members attending the risk management courses be held by the government approved agencies annually, the company internally compiles risk management materials, assigns employees to read to improve risk awareness, and encourages proposals to explore potential risks. The company also implements the spirit of risk management in daily management. For example, various standard operating practices and various types of management functions regularly perform self-inspection operations to identify potential	

Assessment item	Implementation status (Note)			Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and reasons
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			risks as early as possible for prevention and improvement. 6. Risk culture construction: In order to raise the awareness of risk among all employees and build a risk culture, two executive directors (president and executive vice president) will serve as chairpersons and deputy chairmen of the risk management steering committee to establish a consensus of the management hierarchy, enhance the operation of risk management organizations, and review annually the implementation of annual risk management performance and emerging risks in the future. In addition, a variety of incentives are provided to encourage employee proposals and stimulate peers to think innovatively to explore potential risks. To provide peers with immediate response by setting up 24-hour instant case report system, the information security line, employee feedback mechanisms etc., meanwhile, through TV walls, posters, and computer wallpapers to propagate the risk management culture and makes it deep-rooted among all employees. 7. In the year of 2018, the company had 210 risk projects submitted by the risk management committees. According to statistics, 5 items need to be improved immediately, 27 items will be improved depending on situation, 74 items are acceptable level, and 104 items are no actions required. The major high risks were information security and protection, power supply, wafer supply, and exchange rate changes. Due to the strategy was continuously implemented, the current level of those items	

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			has been re-classed to acceptable level or lower, meanwhile, long-term management planning and crisis management mechanisms were established. 8. We plan to regularly report the implementation of risk management to the board of directors to achieve our goal of sustainable development. (VIII) Implementation of Customer Policy: 1. Customer royalty will be helpful to expand the business scope and strengthen the good partnership with customers. Maintaining good customer relationships help build customer loyalty, and higher loyalty benefits business scope expansion and maintaining partnerships with customers. Creating quality service is one of the core values of the company. The company's goal is to maintain its service in leading position among DRAM manufacturers, and believes that maintaining the aforementioned service objectives and attitudes will help to enhance the existing customer relationship and establish a reputation in the industry, which will be beneficial to attracting new customers. 2. Product design and test verification stage: In order to reinforce the efficiency and frequency of customer service and to have a closer relationship with customers, the Market Application Division, from headquarter, provides customers' technical solutions in various regions including Taiwan, mainland China, Southeast Asia, Europe, America, Japan and South Korea. We provide technical support	

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			and assist in solving the problems faced by the customer's engineering staff in design and testing. In addition, the Company's high-efficiency, intensive, and high-quality customer platform parameter measurement services help customers understand the characteristics of their product platforms, greatly accelerate the development and verification cycle of new client products, reduce investment risks, and assist terminals. Real-time input into demand market. 3. Production and sales stag: The company's business staff continuously communicates with the customer through the weekly feedback of the customer's future demand forecast. The company's production and sales system converts into a production plan after the head office aggregates the needs of global business feedback. According to weekly feedback from business staff, it is continuously adjusted to facilitate production to meet customer needs. To ensure that product shipments can meet customer needs, the company cooperates with the world's top international express delivery companies to select the most appropriate delivery company based on customer area and delivery efficiency. 4. After-sales service stage: When the customer feedbacks the product problem, the market application engineering department from headquarters will contact and assist the customer in the shortest time to solve the problem; if further analysis is required, the company's quality and engineering department will step in to clarify the problem and provide	

Assessment item	Implementation status (Note)			Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and reasons
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			solutions to help customers to resume production as soon as possible. In addition, the headquarters market application engineering department will also take the initiative to visit customers regularly or conduct technical discussion meetings at the request of customers to assist them in resolving problems related to DRAM usage. 5. Customer privacy protection: The customer is an important partner of the company. Therefore, the customer's privacy and confidential information are classified as confidential information. In order to ensure the protection of confidential information, the company has established "company confidentiality management regulation" for employees to follow when dealing with customers' information. The company will also regularly conduct advocacy and audits to enhance the awareness and ability of all employees in the process of classifying and handling confidential information. In addition, only authorized workers have the access to read customers' information stored into the document control center. If customers have any concerns or facts concerning leakage of information, they can also file a complaint through the company's report box. Their email address is forcibly printed on each employee's business card. The customer can be obtained from the company's employee's business card. 6. Customer Satisfaction: The company conducts a comprehensive customer satisfaction survey every year for direct transactions and uses a customer satisfaction electronic system to send	

Assessment item	Implementation status (Note)			Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and reasons
	Yes	No	Explanation	
			questionnaires. The survey includes "products," "delivery," "quality," and "technical services." For the low-satisfaction items, the relevant departments are responsible for reviewing the improvement measures, and presenting the results of the customer satisfaction survey at the top management meeting. The business staff then will feedback the improvements to customers. To better understand our customers' needs in an equitable and objective way, survey to end customers will be conducted in 2018, using the Internet or interviews by neutral third-party consultancy companies. The average score will decline slightly due to the increasing numbers of our customer and will continue to work hard to increase customer satisfaction. In addition to customer satisfaction surveys, our service team also conducts business reviews with its customers on a quarterly basis (Quarterly Business Reviews), and can maintain close contact with customers to provide better services. The company focus on both internal process quality improvement and external customer satisfaction. Whether internal or external, it uses the PDCA (Plan→Do→Check→Action) management cycle approach to apply to various indicators to reach an unity direction and mutual goal. (IX) Case where the company purchased liability insurance for directors: We have insurance coverage for all directors, please refer to MOPS.	Complies with Article 39 of the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies.

Assessment item	Implementation status (Note)			Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and reasons
	Yes	No	Explanation	
IX. Please indicate the improvement of the results of the corporate governance evaluation issued by the Company's Center for Corporate Governance in the last year of the Taiwan Stock Exchange Co., Ltd. and provide priority measures and measures for those who have not yet improved. The Taiwan Stock Exchange's Corporate Governance Center had not released the results of the fifth corporate governance assessment on the date of annual report publication, improvement measures we plan to implement for items that we do not receive scores in are as follows: (I) Continuing education of directors: We actively arrange for directors to take continuing education courses to meet the hour requirement of the Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEx Listed Companies. (II) Establishment of a "Corporate Governance Supervisor": We plan to request that the board of directors approve the establishment of a "Corporate Governance Supervisor" before the end of June 2019.				

Note: Summarize operations in the description field regardless of whether "Yes" or "No" was selected.

(IV) Composition, Responsibilities and Operations of the Company's Remuneration Committee

1. Professional Qualifications and Independence Analysis of Remuneration Committee

April 1, 2019

Title	Criteria / Name	Meet the following professional qualification requirements, together with at least five years work experience			Independence (Note)								Number of other public companies concurrently serving as a member of remuneration committee	Remarks
		An instructor or higher position in a department of commerce, law finance, accounting, or other academic department related to the business needs of the Company in a public or private junior college, college or university	A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialists who has passed a national examination and been awarded a certificate in a profession necessary for the business of the Company	Have work experience in the area of commerce, law, finance, accounting, or otherwise necessary for the business needs of the Company	1	2	3	4	5	6	7	8		
Independent Director	Ching-Chyi Lai	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1	
Independent Director	Shu-Po Hsu			✓	✓	✓	✓	✓	✓	✓	✓	✓	N/A	
Independent Director	Tsai-Feng Hou			✓	✓	✓	✓	✓	✓	✓	✓	✓	N/A	

Note: Tick "v" in the appropriate corresponding boxes if Board Directors and Supervisors qualify the following conditions during the two years before being elected or during the term of office:

(1) Not an employee of the Company or an affiliated Company.

(2) Not a director and supervisor of the Company or an affiliated Company (The same does not apply, however, in cases where the person is an independent director of the Company, its parent Company, or any subsidiary in which the Company holds, directly or indirectly, more than 50 percent of the voting shares.)

(3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of issued shares of the Company or ranks as one of its top ten shareholders;

(4) Not a spouse, a relative within second-degree of kinship or a relative within third-degree of consanguinity of the persons referred to in the previous three paragraphs;

(5) Not a director, supervisor, or employee of a corporate/institutional shareholder that directly holds 5% or more of the total number of issued shares of the Company or ranks as of its top five shareholders;

(6) Not a director, supervisor, manager of, or a shareholder holding 5% or more of the total stocks issued by any specified Company or institution engaging in financial or business dealings with the Company.

(7) Not a professional, the owner, partner, director, supervisor, manager or the spouse of the aforesaid persons of a solely-owned business, partnership, Company or institution that has provided financial, business, legal or other services and consultation to the Company or its affiliated companies.

(8) Not been a person of any conditions defined in Article 30 of the Company Law.

2. Remuneration Committee Meeting Status

(1) There were 3 members of NTC's Remuneration Committee.

(2) Current term for the members: June 22, 2016 ~ June 21, 2019. A total of 3 meetings of the Remuneration Committee were held as of December 31, 2018. The qualifications and attendance of committee members is shown below:

Title	Name	Attendance in person	By Proxy	Attendance rate (%)	Remarks
Convener	Shu-Po Hsu	2	1	66.7	
Committee member	Ching-Chyi Lai	3	0	100	
Committee member	Tsai-Feng Hou	3	0	100	

Other mentionable items:

I. If the Board of Directors did not adopt or revise the recommendations of the Remuneration Committee, it should describe the date of the Board meeting, term of the Board, agenda item, resolutions adopted by the Board, and actions taken by the Company in response to the opinion of the Remuneration Committee (if the board of directors approved salaries higher than the recommendation of the Remuneration Committee, specify the discrepancy and reason): None.

II. If a member opposes a resolution the Committee has adopted or has reservations with a written record or a statement, the date and session of the meeting, the resolution, opinions of all the members, and the handling of their opinions shall be indicated: None.

III. Scope of authority of the Remuneration Committee:

The Remuneration Committee performs the following duties in accordance with the Remuneration Committee Charter and relevant laws and regulations, and submit recommendations to the board of directors for discussion:

1. Periodically review the Company's Remuneration Committee Charter and submit revision recommendations.
2. Establish and periodically review director and manager performance evaluation and remuneration policies, systems, standards, and structures.
3. Periodically evaluate and set the remuneration to directors and managers.

IV. Operations in the most recent year:

Board of Director	Content
February 26, 2018 1st meeting in 2018	1. Proposed employee bonuses for managers in 2017.
	Remuneration Committee Resolution on February 26, 2018: All attendants agreed to pass. The Company's handling of the Remuneration Committee's opinions: Except from some directors that recused themselves (Please refer to 2. Implementation of Directors Avoiding Conflict of Interests towards Resolution), the remaining directors approved the proposals.
August 10, 2018 5th meeting in 2018	1. Proposed salary raises for managers in 2018.
	Remuneration Committee resolution on August 10, 2018: All attendants agreed to pass. The Company's handling of the Remuneration Committee's opinions: Except from some directors that recused themselves (Please refer to 2. Implementation of Directors Avoiding Conflict of Interests towards Resolution), the remaining directors approved the proposals.

(V) Implementation Status of Corporate Social Responsibility

For details on implementation status, please refer to the Corporate Social Responsibility Report on our website. (http: //www.nanya.com/tw/CSR)

Assessment item	Implementation status			Deviations from Corporate Social Responsibility Best Practice Principles for TWSE/TPEx listed companies and reasons
	Yes	No	Explanation	
I. Implementing Corporate Governance				Complies with Article 6-10 of the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies.
(I) Does the Company declare its CSR policy, system or relevant management guidelines and review the results of the implementation?	✓		1. We believe that "what is taken from society should be used in the interest of society," and fulfill our corporate social responsibility through "corporate governance," "environmental protection," and "social welfare." We established KPI for energy conservation, environmental protection, and assistance for the underprivileged. These KPI are constantly reviewed and improved based on the spirit to strive for absolute perfection, and are applied to CSR related work.	
(II) Does the Company organize education and training on the implementation of CSR initiatives on a regular basis?	✓		2. To raise employee awareness of human rights and work safety, we irregularly organize courses on labor safety and health, the Labor Standards Act, sexual harassment prevention, and gender equality at work, and also promote environmental protection policy and charity activities.	
(III) Does the Company establish an exclusively (or concurrently) dedicated unit to be in charge of CSR and appoint executive-level positions by the board of directors with responsibility for CSR issues, and	✓		3. Establishment of a sustainable development organization (1) We formally established a Sustainable Development Committee in 2018 to implement our sustainable development strategy and management policies and goals for material issues each year. The company is the highest level execution unit. All departments participate in the committee, which is chaired by the president, and assistant vice president and above managers serve as committee members. The committee reports the Company's sustainable development strategies, vision, goals,	

to report the status of the handling to the board of directors?			implementation policies, and results (please refer to the CSR report) to the board of directors on an annual basis. (2) The Sustainable Development Committee plans execution of economic, social, and environmental aspects, in which the Finance Officer, Director of Human Resources, and Director of Safety and Health serve as the director-general for planning sustainable development affairs in each aspect, and report their implementation status and results to the Sustainable Development Committee each quarter. (3) The "Corporate Governance Working Group," "Environmental Sustainability Working Group," "Social Engagement Working Group," "Supply Chain Management Working Group," and "Customer Relations Working Group" were established in coordination with material issues in the three aspects of sustainable development, and continue to review key projects and establish KPI to achieve sustainable development goals. (4) A dedicated sustainable development organization was established under the President's Office to handle the following affairs: A.The Sustainable Development Committee meets on a quarterly basis to formulate the Company's sustainable development strategy, vision, goals, management policy, and related systems. B.Plan and execute the Company's sustainable development action plans, control progress, and conduct performance assessments. C.Assist working groups in planning sustainable development related approaches, follow up on the execution and performance assessment of material issues, and report execution results to the Sustainable Development Committee.	
(IV) Does the Company adopt reasonable remuneration policies and combine the employee performance evaluation system	✓		4. We have established clear rules for employee promotion, evaluation, training, reward, and punishment. The salary standard for new employees is based on the academic background and work experience of the required talent, as well as the spirit of "equal pay for equal work." The basic pay of male and female employees at the same position and job grade is	

Assessment item	Implementation status			Deviations from Corporate Social Responsibility Best Practice Principles for TWSE/TPEx listed companies and reasons
	Yes	No	Explanation	
with CSR policies, and that a clear and effective incentive and discipline system be established?			1:1. After employees are hired, they receive salary raises and promotions based on their work performance. Furthermore, our Articles of Incorporation specify the percentage or scope of employee bonuses; please refer to 8. Employee Bonuses and Director's Remuneration in IV. Fund Raising. Employee bonuses has increased with the appropriation rate in the last two years as recognition of their hard work and good performance, sharing the results of business with employees.	
II. Fostering a Sustainable Environment (I) Does the Company endeavor to utilize all resources more efficiently and use renewable materials which have a low impact on the environment?	✓		We attach great importance to customers' health and safety in each stage from material procurement to product sales. We continue to improve production processes and are developing non-toxic, eco-friendly, and green energy products in coordination with market trends and the needs of downstream customers. 1. Eco-friendly Products (1) We strive to develop advanced, highly efficient, and eco-friendly products to jointly protect the Earth. We not only assist customers in developing low-energy consumption products, but also exert our influence on the supply chain for hazardous product management and conflict minerals management. (2) The low-power DRAM products and 20 nm consumer DRAM products we sold in 2018 are assessed based on a two-year new product lifecycle and the usage of electronic products, and saved approximately 701.02 million kWh (2.5 x 10^9 MJ), contributing to our efforts to expand business and protect the Earth. Our low-power and energy efficient memory has lower operating voltage and	Complies with Article 11-17 of the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies.

Assessment item	Implementation status			Deviations from Corporate Social Responsibility Best Practice Principles for TWSE/TPEx listed companies and reasons
	Yes	No	Explanation	
			current than the previous generation, and therefore has lower power consumption. Estimating based on the number of products sold in 2018, we reduced CO_2 by 388,368 metric tons. Calculating using the CO_2 absorption of Daan Forest Part at 389 per year, this is equal to the CO_2 absorption of about 998 Da'an Forest Parks.	
(II) Does the Company establish proper environment management systems based on the characteristics of their industries?	✓		2. Legal and regulatory compliance (1) We established EHS Management Regulations, management information systems, and office automation systems, strengthening the EHS management in our factories through a comprehensive system. Furthermore, we implemented an environmental accounting system, monitor environmental expenditure information and benefits, and disclosure our environmental protection measures to stakeholders.	
(III) Does the Company monitor the impact of climate change on their operations and establish Company strategies for energy conservation, carbon and greenhouse gas reduction?	✓		(2) We regularly commission SGS to compile our GHG inventory. With regard to energy conservation and carbon reduction, we set reduction goals each year. (3) We successfully passed the external certification for ISO 14001 Environmental Management System, and implement environment improvement plans each year based on the spirit of making constant improvement, so as to minimize our environmental impact. Furthermore, we began using process gases with lower global warming potential and waste gas treatment equipment with high reduction rate in 2006 to reduce our GHG emission. We compile a GHG inventory according to ISO 14064-1 each year, and commission an independent third-party for verification. The information is disclosed on the CDP website. (4) We are committed to promoting environmental protection management, formulating EHS performance indicators, promoting various waste	

			reduction and resource reuse, greenhouse gas reduction and other projects, and implementing green product management in coordination with the Green Product Promotion Committee, in order to comply with the trend of global environmental protection. Our environmental protection certificate management, testing contents, and reporting items were all handled according to law. There was no violation of environmental protection regulations in 2018. 3. Environmental Sustainability Management (1) Our EHS policy emphasizes waste reduction and resource recycling to comply with applicable laws and regulations, as well as our commitments to environmental protection. We hope to thereby improve our corporate image and ensure corporate sustainability. With regard to resource recycling and reuse, each year we assess the amount that can be reduced, and the types and amount of waste and wastewater that can be recycled and reused, and then set annual project goals. The projects are included in the annual budget and work plan, and then implemented after gaining approval from management. (2) Related measures include wastewater recycling, treatment, and reuse, copper sulfate waste liquid reuse, reduction of raw material use, recycled material use, packaging material reduction and recycling, air pollution prevention, water pollution prevention, waste management, resource recycling, water use reduction, recycling and reuse, water resource management, and energy conservation measures. 4. Climate Change Management (1) Extreme climate change is gradually affecting the global ecosystem and humanity's survival, and has become an "Inconvenient Truth." In the light of this, we established a Climate Change Management Working Group overseen by the President's Office. The working group sets short-term, mid-term, and long-term reduction goals based on the concept of sustainability, and actively implements energy conservation and carbon reduction measures, striving	

Assessment item	Implementation status			Deviations from Corporate Social Responsibility Best Practice Principles for TWSE/TPEx listed companies and reasons
	Yes	No	Explanation	
			to mitigate climate change and improve the Company's adaptability. (2) Our Business Risk Management Working Group meets each quarter to consider the potential impact of climate change to our overall operations, estimating the probability of risks and their impact, and establishing risk response and mitigation plans, as well as crisis management mechanisms. This enables the working group to give warnings in advance and mitigate the impact of risks on company operations. Major climate risks that have been identified include legal aspects, the impact of natural disasters, laws of different countries on the energy efficiency of products, and consumers' preference for environment and climate friendly products. This will have a more significant effect compared with the past. We analyze risks based on their probability and impact, and formulate relevant measures in hopes of reducing the impact of climate risks. 5. Greenhouse Gas Inventory and Reduction (1) We began compiling a GHG inventory and report each year based on internal calculations starting in 2005, and we began commissioning a third party for ISO 14064-1 verification the same year to ensure the completeness and credibility of our GHG inventory. At present, greenhouse gases are divided into three scopes: Scope 1 (Direct GHG Emissions), Scope 2 (Electricity Indirect GHG Emissions), and Scope 3 (Other Indirect GHG Emissions). Only scope 1 and scope 2 emissions were quantified in 2018. To improve the completeness of our GHG inventory, we began assessing the quantification of scope 3 emissions in 2018, and initially plan to calculate emissions from waste clearance and transportation tools used by employees for commuting. We used the	

			operational control approach for GHG emission data, and the main source of GHG emissions is purchased electricity (accounts for about 84%) and perfluorocarbons (PFCs) used in processes (accounts for about 7%). Our GHG emission in 2018 was 450,885.858 tons CO2e. Our scope 1 emissions was 78,322.8727 tons CO2e, and we did not have any CO2 emissions from biomass fuel. Our scope 2 emissions was 372,562.9857 tons CO2e. (2) We have an open attitude towards carbon disclosures and began participating in ratings of the Carbon Disclosure Project (CDP) in 2009, disclosing GHG emissions each year. Information on GHG reduction. Information on GHG emissions include Scope 1: Direct GHG emissions from our factories and Scope 2: Indirect GHG emissions from purchased electricity and steam. Related information is directly disclosed on the CDP website. In addition to the information on our carbon emissions disclosed on the CDP website and our CSR report, we also disclose our GHG emission and reduction information on the RBA (Responsible Business Alliance) GHG report system, or provide carbon emission data to help customers determine the carbon footprint of products.	
III. Preserving Public Welfare (I) Does the Company comply with relevant laws and regulations, and the International Bill of Human Rights and adopt relevant management policies and procedure?	✓		1. We comply with labor laws and regulations and respect the internationally acknowledged fundamental principles and rights at work. We established our human rights policy and personnel regulations and systems to protect employee rights and interests on this basis. We provide competitive salaries, complete education and training, a promotion development system, and create a safe and healthy work environment to enhance employees' professional competencies.	Complies with Article 18-27 of the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies.

Assessment item	Implementation status			Deviations from Corporate Social Responsibility Best Practice Principles for TWSE/TPEx listed companies and reasons
	Yes	No	Explanation	
(II) Does the Company provide an employee grievance mechanism and respond to any employee's grievance in an appropriate manner?	✓		2. Employee Complaints" and "Whistleblower Regulations" for employees to report any improper management and illegal or unethical conduct. When employees discover any conduct that affects their personal or the Company's rights and interests, improper management, illegal conduct, or attempts to use a position for unjust enrichment, employees can file a report through compliant channels or the online opinion box. Designated personnel will look into the reports and reply to employees, ensuring smooth communication channels for employees to express their opinions.	
(III) Does the Company provide safe and healthful work environments for their employees and organize training on safety and health for their employees on a regular basis?	✓ ✓		3. Safe Workplace (1) Operations of the Occupational Safety and Health Committee: Senior executives, department heads, and committee members (34% are labor representatives in accordance with the law) participate in committee operations. The committee reviews the attainment of EHS management goals, safety and health issues, hazards identification, and risk assessment and management goals on a monthly basis. The safety and health management plan, which involves all employees and contains the occupational safety and health policy, is formulated and implemented on the basis, and complies with regulatory and health promotion requirements. (2) Occupational accident prevention and management: Even through we have already achieved zero disabling injuries in our factories, we have not let our guard down when it comes to disaster prevention. We are constantly raising the safety awareness of new employees and contractors, and have implemented the following measures to prevent occupational accidents: Implement process safety management (PSM), HazOp analysis for potential equipment risks,	

Assessment item	Implementation status			Deviations from Corporate Social Responsibility Best Practice Principles for TWSE/TPEx listed companies and reasons
	Yes	No	Explanation	
			job safety analysis for operating risks, safety and health education and training, and SWAT. (3) Occupational safety and health management system: Implemented and achieved certification for OHSAS18001:2007 and TOSHMS management systems. We will transition to the ISO45001:2018 system according to ISO in 2019, and will set goals for hazards of high risk operations according to the PDCA management cycle to continue making improvements. (4) Safety and health education and training: We include courses for certifications required by the law, special hazardous operations, and emergency response to disasters into the annual training plan for new employees, senior employees, and supervisors. In addition to scheduled training courses, emergency response drills are arranged for high risk items to raise employees' safety awareness and achieve comprehensive prevention. (5) Employee healthcare: We are working with the medical team of Chang Gung Memorial Hospital to provide employees with annual health examinations, and follow-up and health management is carried out for employees with abnormal results. All of our factories have a medical room with a physician stationed on site to provide employees with professional medical and consultation services. Seminars on spirituality and health and healthcare courses are arranged each quarter to meet employees' need for knowledge on physical and mental health.	
(IV) Does the Company establish a platform to facilitate regular communication between the management and the employees and	✓		4. We provide a variety of smooth communication channels to communicate with employees regarding different issues: (1) Communication channels include: A. Corporate announcements; B. Human resources service representatives; C. Regular meetings (such as meals with the general manager's (biweekly)/staff meetings	

inform employees of operation changes that might have material impacts?			(quarterly)/production department TA season meeting (quarterly); D. Irregular communication meetings; E. Employee relations department channels of communication, suggestion boxes, and emergency support from the health center's medical personnel on site; F. Company publications, electronic platforms, and questionnaires (such as education and training satisfaction, catering satisfaction, etc.). (2) Department heads attend regular supervisory board meetings and labor-management meetings held by unions to fully communicate with employees. (3) We prioritize the protection of employees' right to work, established a human resource integration mechanism, use transfers instead of separation, and reduced the number of employees in departments instead of outsourcing and hiring foreign workers.	
(V) Does the Company establish effective training programs to foster career skills?	✓		5. Talent Cultivation and Development (1) To provide a better and more effective talent cultivation system, we established a complete professional training system and implemented training development management. Training courses include new employee training, general training, position-specific training, manager training, internal lecturer training, direct personnel training. And personal development courses in physical classrooms and online courses. Furthermore, the establishment of a training development system and knowledge management system enriches our professional training system, and also links together internal knowledge and creativity. Employees can access, share, and create professional knowledge, courses, and articles on our internal website, which also provides a variety of learning resources and information to help units learn, including information on external training and lectures, specialized technology communities, and discussions. (2) We planned a variety of on-the-job training and learning channels to promote talent cultivation, lifelong learning, and assist employees with career development, so as to expand their scope of learning. Continuing education and learning channels include: Online learning multimedia center, language learning subsidies, on-the-job degree programs, and participation in external courses.	

Assessment item	Implementation status			Deviations from Corporate Social Responsibility Best Practice Principles for TWSE/TPEx listed companies and reasons
	Yes	No	Explanation	
(VI) Does the Company establish policies on consumer rights and interests and accept consumer complaints in the process of research and development, procurement, production, operations and services?	✓		6. Customer relations management is an important part of corporate sustainability. In order to learn the precious opinions of our customers, we provide customer complaint channels and refund and compensation application procedures. Customers can express their opinions through the "Customer Feedback Form" and salespeople fill out a "Customer Complaint Handling Form" for refunds when there are customer complaints. The progress of each case is controlled by a computer system. Our website provides service hotlines and e-mails for various products, so that customers can directly provide feedback through different channels. Related departments periodically summarize issues of concern to customers, and set the priority for making improvements based on the importance and time constraints of the issues, ensuring that customers needs are met.	
(VII) Does the Company follow relevant laws, regulations and international guidelines when marketing or labeling their products and service?	✓		7.Most of our products are not directly sold to general consumers, so we have relatively few marketing activities such as commercials and flyers. If any promotional activities involve legal aspects, our units will consult the legal and intellectual property departments to avoid violating the law.	
(VIII) Does the Company assess whether there is any record of a supplier's impact on the environment and society prior to engaging in commercial dealings?	✓		8.& 9. We require our upstream suppliers to be RoHS compliant, have labor safety qualifications required by the government, be ISO certified, and provide announcements and labels indicating hazardous substances during each procurement. Suppliers must properly recycle or reuse containers and loading devices, give priority to goods made by organizations for persons with disabilities, and attach proof that the goods do not have any radiation pollution. These requirements are specified in the "Request for Quotation" and "Purchase Notice", which also explain our policy	

(IX) Do the Company's contracts with major suppliers include a clause that states that if the supplier violates our corporate social responsibility policies, resulting in significant impacts to the environment and society, the Company retains the right to terminate the contracts at any time?	✓		for corporate sustainability, compliance with the principle of fair trade, and requirement that suppliers comply with environmental protection, labor safety, and human rights regulations. Shipments that fail to comply with these requirements will be rejected and will be taken into consideration during supplier assessments. When the materials, parts, or products procured contain metal, we require suppliers to thoroughly investigate whether if the are conflict minerals, ensuring that all raw materials we purchase are obtained through legal channels.	
IV. Enhancing disclosure of ethical corporate Has the Company disclosed relevant and reliable information regarding its corporate social responsibility on its website and the Market Observation Post System?	✓		1. Our CSR report provides information and data on our efforts in environmental protection, corporate governance, and social welfare, and the status, policy, and results of CSR related work are disclosed on our website. (URL: http: //www.nanya.com/tw/CSR) 2. We periodically disclose quarterly and annual financial statements in the investor relations section of our website and on the MOPS.	Complies with Article 28-29 of the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies.

V. If the Company has established its corporate social responsibility code of practice according to "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies", please describe the operational status and differences:

The Company has established its corporate social responsibility policies and code of practice which comply with “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies” on August 10, 2015. For the implementation status, please refer to NTC CSR Report and our corporate social responsibility related information on our website: http://www.nanya.com

Assessment item	Implementation status			Deviations from Corporate Social Responsibility Best Practice Principles for TWSE/TPEx listed companies and reasons
	Yes	No	Explanation	

VI. Other key information useful for explaining status of corporate social responsibility practices:

(I) Participation in external associations:

We are dedicated to our core business and different aspects of sustainable development (environmental, social, and economic aspects), including industrial and economic development, technological innovation and development, climate change, employee rights and interests, human rights, and social engagement. We established the "Nanya Technology Corporation Guidelines for Participation in Public Affairs" as the basis for establishing all policies for participating in related industries or joining industry associations. This information is transparent and accessible by the public. We established a Public Affairs Participation Team under the Sustainable Development Committee. The team is responsible for making decisions regarding our participation in public affairs, and periodically assesses and reviews the commercial value of participating in public affairs, as well as whether the policy matches our business goals, corporate policy, and public policy, ensuring that it is in the interest of all stakeholders. Important associations that we are participating in are as follows:

1. Taiwan Semiconductor Industry Association (Director).
2. Taiwan IC Industry & Academia Research Alliance (Member).
3. Center for Corporate Sustainability (Director)

(II) Community engagement:

Our goal is to become one of the best enterprises to work at, and we thus established a five-year plan to give our employees a sense of happiness, honor, and mission. Externally, our goal is to strike root, develop, and mutually prosper. We are making active efforts to be friendly to local communities and show care for society through good neighbor and social welfare activities.

1. Good neighbor:

Besides maintaining the environment at nearby roads, properly communicating with local residents, and providing assistance, we continue to engage in local events, such as temple fairs, activities of elderly associations, marriage, funerals, and celebrations, and activities in factories that invite residents to participate in. These efforts build harmonious relationships with residents and local personages.

2. Mountain cleanup activities:

Besides maintaining the environment at nearby roads, properly communicating with local residents, and providing assistance, we continue to engage in local events, such as temple fairs, activities of elderly associations, marriage, funerals, and celebrations, and activities in factories that invite residents to participate in. These efforts build harmonious relationships with residents and local personages. We organized a mountain cleanup activity at the hiking trail of Qiongzai Lake on Taishan with Nanya volunteers on May 19, 2018 as part of our efforts to be good

neighbors.

We gain a profound understanding of the difficulty of environmental conservation through the promotion and execution of mountain cleanup activities. Trash not only makes the environment dirty, but also endangers the balance of the forest ecosystem. With the hard work of our volunteers, roads, parks, ditches, and wells near our factories have been cleaned of plastic waste, iron and aluminum cans, cigarettes, and sludge. We hope to bring change through participation in environmental protection activities, and not only change our own habits in using plastic products, but also properly recycling and reusing all objects. We are also promoting environmental protection concepts to our surrounding people, events, and things, so as to positively influence all people. After the activity, we received letters of appreciation from the solidarity association and local residents of Taishan District and mountaineers for being good neighbors by keeping the surrounding environment clean.

3.Cheer for Taiwan's sports:

We set up a cheering section in the company, in response to the biannual Formosa Plastics Group Sports Meet, to encourage Nanya Technology Corporation employees to seek glory in the sports meet, and also to support Taiwan's sports through charity. For each card written by employees to cheer for athletes of Nanya Technology Corporation, we donated NT$10 to charity. We donated a corresponding amount to charity when athletes representing Nanya Technology Corporation scored or placed in the sports meet to encourage athletes to do their best. We donated a total of NT$300,000 through the "Sports Sponsorship Database Matchmaking Platform" of the Sports Administration, Ministry of Education to the baseball team of Taoyuan City Guishan Junion High School in December 2018.

4.Computer donations:

We participated in the Refurbished Computers Project of the Triple-E Institute and donated 90 desktop computers to charity in 2018.

(III) Technology talent cultivation:

Nanya Technology Corporation cultivates outstanding technology talent through campus projects and industry-academia collaboration based on the philosophy of our founder to give back to society. Main direction for implementation: Organize seminars with industry experts, support campus activities, establish scholarships, and organize company visits.

1. Seminars with industry experts:

To help students understand the connections between what they learn at school with the actual situation in the workplace, our middle management and executive began interacting with students face-to-face on campus as industry experts starting in 2018. As industry experts, they shared their

Assessment item	Implementation status			Deviations from Corporate Social Responsibility Best Practice Principles for TWSE/TPEx listed companies and reasons
	Yes	No	Explanation	
	experience with key schools in northern Taiwan during 10 seminars and with a total of 783 attendees in 2018. The easy-to-understand lectures gave students new perspectives in technology, emerging processes, and directions for IC design. They unveiled what it is like in the workplace through face-to-face exchanges and interactions, so that students will be more confident when they are searching for jobs in the future. The seminars allowed students to better understand their personalities, direction for seeking employment, and the industry's outlook and current developments, saving them time that would have been spent in the wrong line of work or adapting to the workplace. 2. Campus activities: Based on the philosophy of giving back to society, we sponsor campus activities that encourage students to pursue their studies and develop abilities in different areas. Supported 4 campus activities in 2018: We provided a total of NT$480,000 to the hardware and software maker event organized by the NTU Department of Electrical Engineering – "Make NTU"; the sports meet organized by NTU Graduate Institute of Electronics Engineering, NCTU Electronics Night, and NCTU Microelectronics Camp, which had a total of 700 participants. These experience and social events facilitated exchanges between industry and academia, and created a corporate image that is active, young, and energetic. The events bring together outstanding students with backgrounds in electrical engineering from around Taiwan, so that talent from different fields will initiate new technology trends. We strive to build a bridge of communication between enterprises and students, and arouse their interest and passion for science, engineering, and cutting-edge technology. We hope to thus attract more outstanding students to enter the electronic technology industry, and will provide them with internship and even job opportunities, extending the value of the events and linking together industry and academia to fulfill our duty of technology talent cultivation. 3. Scholarships: We established Scholarship Regulations to encourage students to engage in academic research and to recognize outstanding students for making constant improvement. We awarded a total of NT$686,000 in scholarships to the NCTU Institute of Electrical and Computer Engineering, NTU Graduate Institute of Electronics Engineering, and Ming Chi University of Technology in 2018. We hope that the scholarships will not only relieve the economic burdens of students, but also encourage them to strive for excellence. 4. Company visits: We invite students to visit our company to help them better understand the industry's development. During visits, we introduce the work environment, workflow, and product development and applications of the production and engineering departments. Students also have a chance to go into our clean room. The visits give students an understanding of our operations and characteristics, and learn about future trends, so they can plan their personal studies accordingly.				

Assessment item	Implementation status			Deviations from Corporate Social Responsibility Best Practice Principles for TWSE/TPEx listed companies and reasons
	Yes	No	Explanation	
We organized a total of 12 company visits in 2018, in which 485 teachers and students visited our company. Several of the visits were organized in coordination with our internship program, allowing future interns to see their work environment before formally starting their internship, thus helping to better understand their work. Interviews and communication with supervisors allowed suitable talent to be found, and also helps them to more quickly adapt to the workplace, regardless of whether they are interns or formal employees.				
VII. If the Company's "Corporate Social Responsibility Report" has been verified against assurance standards of the relevant certification bodies, the Company shall describe: The Company's Corporate Social Responsibility Report is compiled with reference to the spirit of the Global Reporting Initiative (GRI) 2016 Global Resiliency Reporting Standard (the core option of GRI Standards) and is planned by a third-party impartial unit. The Association (BSI) conducts a verification of the AA 1000 Type II, and the results of the verification have not been published as of the date of publication of the annual report.				

(VI)Implementation Status of Operational Integrity

Assessment item	Implementation status (Note 1)			Departure from "Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies" and reasons
	Yes	No	Explanation	
I. Establishment of ethical corporate management policy and approaches				
(I) Does the Company clearly specify ethical corporate management policies, guidelines and the commitments of the board of directors and management team to implement the policies in its rules and external documents?	✓		1. At NTC we comply with laws and pursue our business objectives with integrity. Integrity is a major core value of the Company's operational philosophies. NTC has established the Ethical Corporate Management Principles, the Code of Ethical Conduct and the Employee Code of Conduct to require directors, managers and each employee to bear a heavy personal responsibility to uphold NTC's ethics value. All details of the ethics policies and the measures that the Board and the management team take to ensure compliance are reported in our annual report and the Corporate Social Responsibility Report.	Complies with Article 4 and 5 of the Ethical Corporate Management Best Practice Principles for TWSE/TPEx-Listed Companies.
(II) Does the Company establish relevant policies, including operational procedures, guidelines, disciplinary rules for violations and complaint channel, for preventing any unethical conduct? Does the Company implement the policies?	✓		2. NTC has established the Codes of Ethical Conduct and Employee Code of Conduct available on our internet for all employees understanding of the Company's resolve to implement ethical corporate management, the related policies, complaint channel, and the consequences of committing unethical conduct. In order to promote a culture of awareness, we require all employees to be trained periodically on our core values and passed the qualification.	Complies with Article 8 and 18 of the Ethical Corporate Management Best Practice Principles for TWSE/TPEx-Listed Companies.
(III) Does the Company adopt any prevention program for the items of the	✓		3. NTC has established the Codes of Ethical Conduct and Employee Code of Conduct. All employees shall follow this Employee Code of Conduct and act with integrity to ensure the relationships with our	Complies with Article 2 and 10-14 of the Ethical Corporate

Assessment item	Implementation status (Note 1)			Departure from "Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies" and reasons
	Yes	No	Explanation	
Article 7.2 of "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies" or higher potential unethical conduct within other business activities?			customers, shareholders, colleagues, suppliers and the communities, in which we live and work, are built on trust. The Company prohibits the employee to accept any improper gifts and entertainment. 4. For business activities with higher risk of unethical practices, we established the Code of Business Conduct and Ethics, Personnel Management Rules, and Work Rules, stipulating that personnel holding positions involved in business, procurement, outsourcing, construction supervision, and budget and other interests of vendors may not accept the invitation of vendors to any form of entertainment, and may not accept money or other benefits from vendors. Violators will be terminated and their supervisors will also be punished. Employees periodically rotate through different positions to prevent corruption from occurring.	Management Best Practice Principles for TWSE/TPEx-Listed Companies.
II. Full Implementation of Ethical Management Principles				
(I) Does the Company assess ethical records of business counterparties? Does the Company include business conduct and ethics related clauses in the business contracts?	✓		All contracts signed due to our business activities contain clauses on ethical conduct. Furthermore, we investigate the integrity of stakeholders such as customers and suppliers to prevent unethical conduct from damaging our interests.	Complies with Article 9 of the Ethical Corporate Management Best Practice Principles for TWSE/TPEx-Listed Companies.

Assessment item	Implementation status (Note 1)			Departure from "Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies" and reasons
	Yes	No	Explanation	
(II) Does the Company set up dedicated unit under the board of directors in charge of promotion of the ethical corporate management and report the execution to the board of directors periodically?	✓		At NTC, under the General Manager's Office, is in charge of carrying out the ethical corporate management policies and reporting to the board of directors on a regular basis.	Complies with Article 17 of the Ethical Corporate Management Best Practice Principles for TWSE/TPEx-Listed Companies.
(III) Does the Company establish policies to prevent conflicts of interest, provides appropriate communication channels and implement the policies?	✓		1. In the "Board of Directors Meeting Rules," we require board members to explain the interest they or the entity they represent have in any important issues during the board meeting. If there is a potential conflict of interest, they may not participate in the discussion or voting, and should also recuse themselves. Nor may they vote on other directors' behalf. Furthermore, pursuant to the "Procedure of Acquisition or Disposal of Assets," proposals to make transactions with stakeholders are submitted to the Audit Committee for approval and passed by resolution of the Board of Directors. 2. In the Code of Business Conduct and Ethics and Personnel Management Rules, we require employees to strictly abide by the principle to avoid conflicts of interest and actively report any conflicts of interest. We also have non-compete clauses to prevent conflict of interest. 3. We established the "Guidelines for Handling Employee Complaints" and "Whistleblower Regulations" to provide channels for employees to report any illegal or unethical conduct.	Complies with Article 19 of the Ethical Corporate Management Best Practice Principles for TWSE/TPEx-Listed Companies.

Assessment item	Implementation status (Note 1)			Departure from "Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies" and reasons
	Yes	No	Explanation	
(IV) Does the Company establish effective accounting systems and internal control systems for the implementation of policies? Does the Company audit such execution and compliance by internal audit unit or entrusted CPA?	✓		The Company sets up the effective accounting and internal control system. Connecting each operational function, including human resources, finance, operations, production, materials and resources, and engineering, via comprehensive computerization to implement cross audit and abnormal management. The Company also forms the professional and independent framework of internal audit. Three levels of internal audit are implemented: Corp. Audit Department under the Board of Directors is responsible for level one internal audit; head Office is responsible for regular and special level two internal audit; Besides, on the basis of internal audit is the duty of whole employees, each department is requested to perform regular (performed monthly, quarterly, semi-annually, or annually, as established per item) self-inspection of business activities to carry out level three internal audit.	Complies with Article 20 of the Ethical Corporate Management Best Practice Principles for TWSE/TPEx-Listed Companies.
(V) Does the Company periodically provide internal or external training courses of ethics corporate management?	✓		We promote the corporate spirit of "Diligence & Frugality" through company periodicals and during various events, instilling employees with the concepts and attitude of integrity, fairness, transparency, self-discipline, and responsibility. Corporate culture courses are offered during new employee orientation. The Company provides new hire orientation and annual refreshed training to all employees for their understanding of the Company's resolve to implement ethical corporate management, the related policies, prevention program and the consequences of committing unethical conduct.	Complies with Paragraph 2, Article 22 of the Ethical Corporate Management Best Practice Principles for TWSE/TPEx-Listed Companies.

Assessment item	Implementation status(Note 1)			Departure from "Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies" and reasons
	Yes	No	Explanation	
III. Implementation of the Company's Whistleblowing System (I) Does the Company set up specific reporting and reward system, convenient reporting channel and assign appropriate and dedicated sponsor to handle the case? (II) Does the Company establish standard operation procedures for the investigation and security mechanism? (III) Does the Company adopt protection measures of non-retaliation?	✓ ✓ ✓		We established the "Guidelines for Handling Employee Complaints" and "Whistleblower Regulations" to provide a whistleblower system: 1. A variety of channels are available for filing reports, including a physical mailbox, e-mail, and whistleblower hotline. These channels are announced at an obvious place at main entrances and exits to notify potential whistleblowers. 2. After accepting a report, members of functional groups under the President Office are responsible for review, opening a case, and subsequent investigation procedures. 3. Confidentiality: After the investigation period and investigation has been concluded, the case officer is strictly prohibited from disclosing information to unrelated persons. Supervisors at each level are also required to maintain confidentiality, and related data must be handled and stored as confidential documents, ensuring that whistleblowers will not be inappropriately treated. 4. NTC has set up the "Report Method" in 2016. Our official website also set up a dedicated line and the mailbox, and have someone to deal with problems when employees, partners or customer have rights damage appeals.	Complies with Article 23 of the Ethical Corporate Management Best Practice Principles for TWSE/TPEx-Listed Companies.
IV. Enhancing information disclosure Does the Company disclose the content and the implement status of the Ethical Corporate Management Policies on the Company's website and MOPS?	✓		We disclose information on ethical corporate management in the "Investor Relations" section of our Chinese and English\ websites. Our Ethical Corporate Management Best Practice Principles can also be accessed on the Market Observation Post System.	Complies with Article 25 of the Ethical Corporate Management Best Practice Principles for TWSE/TPEx-Listed Companies.

Assessment item	Implementation status(Note 1)			Departure from "Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies" and reasons
	Yes	No	Explanation	
V. If the Company has established Ethical Corporate Management Best Practice Principles based on the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies," the Company shall elaborate on any departure from the principles: Our board of directors approved the Ethical Corporate Management Best Practice Principles" on November 10, 2014, which was amended by resolution of the board of directors on June 22, 2016 . Despite the amendment based on our practices, it still in line with the spirit of the Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies.				
VI. Other helpful information regarding ethical corporate management: The Company arrange directors and managers to take part in corporate governance course to enhance supervise and governance ability.				

Note 1: Summarize operations in the description field regardless of whether "Yes" or "No" was selected.

(VII) To access our Corporate Governance Best Practice Principles and related regulations,

please visit our website: (http: //www.nanya.com) and the Market Observation Post System: (http: //mops.twse.com.tw).

(VIII) Other Important Corporate Governance Information

NTC published the “Corporate Social Responsibility Report” to unroll its strategies and related activities in terms of economic, governance, environmental and social aspects. With that, the Company strengthens the communication with employees, shareholders and all stakeholders, as well as demonstrates its efforts in continuous improvement. And the Company has established "Code of Ethical Conduct," please refer to the MOPS website at http://www.mops.twse.com.tw

(IX) Implementation Status of the Internal Control System

1. Internal Control System Statement

Nanya Technology Corp.
Internal Control System Statement

Date: February 27, 2019

The Company states the following with regard to its internal control system in 2018, based on the findings of a self-assessment:

I. The Company is fully aware that establishing, operating, and maintaining an internal control system are the responsibility of its Board of Directors and management. The Company has established such a system aimed at providing reasonable assurance of the achievement of objectives in the effectiveness and efficiency of operations (including profits, performance, and safeguard of asset security), reliability, timeliness, transparency, and regulatory compliance of reporting, and compliance with applicable laws, regulations, and bylaws.

II. There are inherent limitations to even the most well designed internal control system. As such, an effective internal control system can only reasonably ensure the achievement of the three aforementioned goals. Moreover, the operating environment and situation may change and impact the effectiveness of the internal control system. The internal control system of the Company contains self-monitoring mechanisms, however, and the Company takes corrective actions as soon as a deficiency is identified.

III. The Company judges the design and operating effectiveness of its internal control system based on the criteria provided in the Regulations Governing the Establishment of Internal Control Systems by Public Companies (hereinafter the “Regulations”). The internal control system judgment criteria adopted by the Regulations divide internal control into five elements based on the process of management control: 1. Control environment, 2. Risk assessment, 3. Control operation, 4. Information and communication, and 5. Monitoring. Each element further contains several items. Please refer to the Regulations for details.

IV. The Company has evaluated the design and operating effectiveness of its internal control system according to the aforesaid criteria.

V. Based on the findings of the assessment mentioned in the preceding paragraph, the Company believes that on December 31, 2018, its internal control system (including its supervision and management of subsidiaries), encompassing internal controls for understanding of the degree of achievement of operational effectiveness and efficiency objectives, reliability, timeliness, transparency, and regulatory compliance of reporting, and compliance of reporting, and compliance with applicable laws, regulations, and bylaws, was effectively designed and operating, and reasonably assured the achievement of the above-stated objectives.

VI. This Statement will become a major part of the content of the Company's Annual Report and Prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Act.

VII. This statement has been passed by the Board of Directors Meeting of the Company held on February 27, 2019, where 0 of the 12 attending directors expressed dissenting opinions, and the remainder all affirmed the content of this Statement.

Nanya Technology Corp.

Chairperson: Chia Chau, Wu

President: Pei-Ing Lee

2. Audit report of internal control system reviewed by independent auditors: None

(X) Reprimands on the Company and its Employees in Violation of Laws, or Reprimand on its Employees in Violation of Internal Control System and Other Internal Regulations, Major Shortcomings and Status of Correction: None

(XI) Major Resolutions of Shareholders' Meetings and Board Meetings:

1. Important resolutions of the Annual Shareholders' Meeting on May 24, 2018:
   (1) Ratified the Business Report and Financial Statements for 2017.
   (2) Ratified the Company's 2017 Proposal for Distribution of Profits.
   (3) The Amendments to the "Handling Procedures to Engage in the Derivative Transaction of Products" of the Company
2. Implementation Status:
   (1) The 2018 Annual Shareholders' Meeting resolved to distribute cash dividends of NT$3.6229488 per share. Due to the number of outstanding shares being affected by the conversion of overseas convertible bonds to common stock, the Board meeting on May 24, 2018 revised the cash dividend to NT$3.555766 per share, and set the record date to July 4, 2018, and payment date to July 20. The number of outstanding shares was affected by employees exercising their employee stock warrants up to the suspension date specified in the Employee Stock Option Issuance Plan, and the chairperson was authorized to adjust the cash dividend to NT$3.508727 per share on June 8, 2018.
   (2) Another proposal in the 2018 Annual Shareholders' Meeting was to to amend the Handling Procedures to Engage in the Derivative Transaction of Products. We have handled the amendment according to the resolution of the Annual Shareholders' Meeting and announced it on our website.
3. Major Resolutions of Board Meetings in 2018:
   (1) February 26, 2018 The board of directors approved the proposal to convene the 2018 Annual General Meeting and approved the Proposal for Distribution of Profits.
   (2) February 26, 2018 Approved to dispose the shareholding of PieceMakers Technology, Inc.
   (3) May 9, 2018 The Board of Directors approved a capital expenditure

budget of no more than NT$19.71 billion for the fourth phase of 20 nm process technology.

(4) July 20, 2018 The Board of Directors approved the proposal to acquire no more than 84,022,000 shares of Formosa Advanced Technologies Co., Ltd. via a block trade in the stock market.

(5) November 12, 2018 The Board of Directors approved the proposal to establish a wholly-owned overseas subsidiary.

(6) November 12, 2018 The Board of Directors approved the proposal to buyback no more than 20,000,000 shares in the first phase for transfer to employees, and no more than 100,000,000 shares in the second phase to protect the Company's credibility and shareholders' rights and interests.

4. Major Resolutions of Board Meetings in 2019:

(1) February 27, 2019 The board of directors approved the proposal to convene the 2019 Annual General Meeting and approved the Proposal for Distribution of Profits.

(2) February 27, 2019 The Board of Directors approved the proposed budget of no more than NT$4.3 billion for R&D and general capital expenditures in 2019.

(3) April 19, 2019 The Board of Directors approved the list of directors (including independent directors) candidates.

(XII) Major issues of record or written statements made by any directors or supervisors which specified his/her dissent to important resolutions passed by the Board of Directors in 2016, and as of the publication date of the Annual Report: None

(XIII) Resignation or dismissal of personnel, including directors, general managers, accounting supervisors, financial officers, internal auditing supervisors, and R&D supervisors, involved in preparation of financial reports in the past year and up to the date of report None

V. Information Regarding NTC's Audit Fees

(I) Information Regarding NTC's Audit Fees

Unit: NT$ thousands

Name of accounting firm	CPA name	Audit fee	Non-audit fee					Audit period	Remarks
			System Design	Business registration	Human Resources	Other	Total		
KPMG Certified Public Accountants Firm	Astor Kou, CPA	3,784	-	129	-	1,259	1,388	2018.1.1 - 2018.12.31	The "other" items of non-audit fees are mainly 2017-2018 master files and country reports amounting to NT$880,000, transfer pricing reports amounting to NT$175,000, and annual report and printing fees amounting to NT$204,000.
	Delphi Chen, CPA							2018.1.1 - 2018.12.31	

(II) Replaced the audit firm and the audit fee paid to the new audit firm was less than the payment of previous year: None

(III) Audit fee reduced more than 15% year over year: None

VI. Replacement of Independent Auditors

(I) About former accountant

Change date	March 8, 2017 and January 22, 2019		
Reason for replacement and description	internal job adjustment		
Note that the appointment or accountant terminates or does not accept the appointment	Party / situation	accountant	appointer
	Take the initiative to terminate the appointment	V	
	No longer accept (continue) appointment		

<table>
<tr><td>Comments and reasons for the issuance of unqualified opinions outside the latest two years</td><td colspan="3">N/A</td></tr>
<tr><td rowspan="7">Opinions different from those of issuer</td><td rowspan="5">Yes</td><td></td><td>Accounting principles or practices</td></tr>
<tr><td></td><td>Disclosure of financial reports</td></tr>
<tr><td></td><td>Check the scope or step</td></tr>
<tr><td></td><td>Other</td></tr>
<tr><td></td><td></td></tr>
<tr><td>N/A</td><td colspan="2">V</td></tr>
<tr><td colspan="3">Description</td></tr>
<tr><td>OTHER DISCLOSURES (Disclosures required in Item 1-4 to 1-7, Subparagraph 6, Article 10 of these Regulations)</td><td colspan="3">1. Notice from former accountants that the Company's internal control system is incomplete and financial reports are not credible: None
2. Notice from former accountants that the Company's statement cannot be trusted or is unwilling to be associated with the Company's financial reports: None
3. Notice from former accountants that the Company must expand the scope of audit, or data shows that expanding the scope of audits will damage the creditability of previously certified financial reports or financial reports that are about to be certified, but the scope of audit was not expanded due to replacement of accountant or other reasons: None
4. Notice from former accountants that the creditability of previously certified financial reports or financial reports that are about to be certified may be damaged by the data that was collected, but the former accountant did not handle the matter due to replacement or other reasons: None</td></tr>
</table>

(II) About the successor accountant

Office name	KPMG Certified Public Accountants Firm	
CPA name	Astor Kou and Delphi Chen	Astor Kou and Hsin-I Kuo
Date of appointment	March 8, 2017	January 22, 2019
Consultation given on accounting treatment or accounting principle adopted for any specific transactions and on possible opinion issued on financial report prior to appointment and results	N/A	
Successor accountant's written opinion on the different opinions of the former accountant	N/A	

VII. The Company's Chairman, President, or Managers in charge of Finance or Accounting who have been employed in the Auditing Firm or its Affiliates in the past year shall disclose their name, title, and post during their period of employment at the Auditing Firm or its Affiliates. None

VIII. Share transfer by directors, managerial officers and shareholders holding more than 10% equity and changes to share pledging by them in the past year and up to the date of report

(I) Change in Shareholding of Directors, Managers and Major Shareholders

Unit: Shares

Title	Name	2018		As of April 1 of the current year	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Corporate Director and Major shareholder	Nan Ya Plastics Corporation	0	0	0	0
Chairman	Nan Ya Plastics Corporation Representative: Chia Chau, Wu	0	0	0	0
Director	Wen Yuan, Wong	0	0	0	0
Director	Susan Wang	0	0	0	0
Independent Director	Ching-Chyi Lai	0	0	0	0
Independent Director	Shu-Po Hsu	0	0	0	0
Independent Director	Tsai-Feng Hou	0	0	0	0
Director and President	Pei-Ing Lee	420,000	0	0	0
Corporate Director	Formosa Taffeta Co., Ltd.	(7,710,000)	0	0	0
Director	Formosa Taffeta Co., Ltd. Representative: Shih-Ming Hsie	0	0	0	0
Director	Nan Ya Plastics Corporation Representative: Ming Jen, Tzou	0	0	0	0
Director	Nan Ya Plastics Corporation Representative: Wen-Yao Wang	(981,000)	0	0	0
Director	Otto Chang	0	0	0	0
Director and Executive Vice President	Nan Ya Plastics Corporation Representative: Lin-Chin Su (Note 1)	400,000	0	(132,000)	0

Title	Name	2018		As of April 1 of the current year	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Vice President	Joseph Wu	150,000	0	60,000	0
Vice President	Rex Chuang	193,000	0	0	0
Vice President	Yau-Ming Chen (Note 2)	0	0	0	0
Assistant Vice President	Wesley Chang	41,000	0	0	0
Assistant Vice President	Chi-Meng Su	0	0	0	0
Assistant Vice President	Mark Mao	105,000	0	(9,012)	0
Assistant Vice President	Jeff J.P. Lin	100,000	0	0	0
Assistant Vice President	Rex Chen	54,000	0	(63,000)	0
Assistant Vice President	Chuan-Jen Chang	0	0	0	0
Finance Officer	Philip Jao	0	0	0	0
Accounting Officer	Hung-Chi Kuo	70,000	0	0	0
Major Shareholder	Formosa Plastics Corporation	0	0	0	0
Major Shareholder	Formosa Chemical & Fibre Corporation	0	0	0	0
Major Shareholder	Formosa Petrochemical Corporation	0	0	0	0

Note 1: Senior Vice President Lin-Chin Su was promoted to executive vice president on March 8, 2019.
Note 2: Assistant Vice President Yau-Ming Chen was promoted to vice president on March 8, 2019.

(II) Stock Trade/Pledge with Related Party by Directors, Managers and Major Shareholders with 10% Shareholding or More: None

IX. Relationship among the Top Ten Shareholders

April 1, 2019

NAME	Shareholding		Spouse's/ minor's Shareholding		Shareholding by Nominee Arrangement		Name and Relationship Between the Company's Top Ten Shareholders		REMARKS
	Shares	Percentage of shares	Shares	Percentage of shares	Shares	Percentage of shares	Company Name (or name)	Relationship	
Nan Ya Plastics Corp. (Hereinafter "NPC") Legal Representative: Chia Chau, Wu	907,303,775	29.71%	-	-	-	-	FPC	Mutual Corporate Directors	
							FCFC	The Chairman of FCFC is one of NPC's Executive Directors. Mutual Corporate Directors	
							FPCC	Mutual Corporate Directors NPC invests in FPCC under equity method.	
							MLPC	The Chairman of NPC is one of MLPC's Board Directors. NPC is one of MLPS's Board Directors. NPC invests in MLPC under equity method	
Formosa Chemicals & Fibre Corp. (Hereinafter "FCFC") Legal Representative: Wen Yuan, Wong	334,815,409	10.96%	-	-	-	-	FPC	The Chairman of FCFC is one of FPC's Executive Directors. FCFC is one of FPC's Board Directors.	
							NPC	The Chairman of FCFC is one of NPC's Executive Directors. Mutual Corporate Directors	
							FPCC	The Chairman of FCFC is one of FPCC's Executive Directors. Mutual Corporate Directors FCFC invests in FPCC under equity method.	
							MLPC	The Chairman of FCFC is one of MLPC's Board Directors. FCFC is one of MLPC's Supervisors. FCFC invests in MLPC under equity method.	
Formosa Plastics Corp. (Hereinafter "FPC") Legal Representative: Chien-Nan Lin	334,815,409	10.96%	-	-	-	-	NPC	Mutual Corporate Directors	
							FCFC	The Chairman of FCFC is one of FPC's Executive Directors. FCFC is one of FPC's Board Directors.	
							FPCC	Mutual Corporate Directors FPC invests in FPCC under equity method.	
							MLPC	The Chairman of FPC is one of MLPC's Board Directors. FPC is one of MLPC's Board Directors. FPC invests in MLPC under equity method.	

Name	Shareholding		Spouse's/ minor's Shareholding		Shareholding by Nominee Arrangement		Name and Relationship Between the Company's Top Ten Shareholders or their spouses or relatives within the second degree of affinity.		Remarks
	Shares	Percentage of shares	Shares	Percentage of shares	Shares	Percentage of shares	Company Name (or name)	Relationship	
Formosa Petrochemical Corp. (Hereinafter "FPCC") Legal Representative: Pao-Lang Chen	334,815,409	10.96%	-	-	-	-	FPC	Mutual Corporate Directors FPC invests in FPCC under equity method.	
							NPC	Mutual Corporate Directors NPC invests in FPCC under equity method.	
							FCFC	The Chairman of FCFC is one of FPCC's Executive Directors. Mutual Corporate Directors FCFC invests in FPCC under equity method.	
							MLPC	Chairperson is the same person. FPCC is one of MLPC's Board Directors. FPCC invests in MLPC under equity method.	
BlackRock Global Funds - Asian Growth Leaders Fund	31,054,000	1.02%	-	-	-	-	N/A	N/A	
Mai-Liao Power Corporation (hereinafter "MLPC") Legal Representative: Pao-Lang Chen	26,261,393	0.86%	-	-	-	-	FPC	The Chairman of FPC is one of MLPC's Board Directors. FPC is one of MLPC's Board Directors. FPC invests in MLPC under equity method.	
							NPC	The Chairman of NPC is one of MLPC's Board Directors. NPC is one of MLPS's Board Directors. NPC invests in MLPC under equity method	
							FCFC	The Chairman of FCFC is one of MLPC's Board Directors. FCFC is one of MLPC's Supervisors. FCFC invests in MLPC under equity method.	
							FPCC	Chairperson is the same person. FPCC is one of MLPC's Board Directors. FPCC invests in MLPC under equity method.	
Artemis Global Income Fund	24,871,939	0.81%	-	-	-	-	N/A	N/A	
Cathy Life Insurance Co., Ltd. Legal Representative: Tiao-Kui Huang	22,777,000	0.75%	-	-	-	-	N/A	N/A	
Fidelity Investment Trust: Fidelity Series Emerging Markets Fund	21,292,000	0.70%	-	-	-	-	N/A	N/A	

Name	Shareholding		Spouse's/ minor's Shareholding		Shareholding by Nominee Arrangement		Name and Relationship Between the Company's Top Ten Shareholders or their spouses or relatives within the second degree of affinity.		Remarks
	Shares	Percentage of shares	Shares	Percentage of shares	Shares	Percentage of shares	Company Name (or name)	Relationship	
BlackRock Global Funds - Asian Dragon Fund	17,878,000	0.59%	-	-	-	-	N/A	N/A	

X. The total number of shares and total equity stake held in any single enterprise by the Company, the Company's directors, managers, and any companies controlled either directly or indirectly by the Company:

Unit: Share; %; April 24, 2019

Reinvestment Entities	Investment by the Company		Investments by Directors, Supervisors, managerial officers and directly or indirectly controlled enterprises		Comprehensive investment	
	Shares	Shareholding percentage	Shares	Shareholding percentage	Shares	Shareholding percentage
Formosa Advanced Technologies Co., Ltd.	84,022,000	19%	210,455,759	47.59%	294,477,759	66.59%

D. Capital and Shares

I. Capitalization

Unit: Share; NT$

Year / Month	Issue price (NT$ per share)	Authorized capital		Paid-in capital		Remarks		
		Shares	Amount	Shares	Amount	Capitalization	Capital increased by assets other than cash	Other
201803	—	30,000,000,000	300,000,000,000	3,002,881,979	30,028,819,790	Overseas Convertible Bonds convert to Common Stock	N/A	Note 1
201806	—	30,000,000,000	300,000,000,000	3,059,617,894	30,596,178,940	Overseas Convertible Bonds convert to Common Stock	N/A	Note 1
201809	33.1 -34.3	30,000,000,000	300,000,000,000	3,101,419,894	31,014,198,940	Exercised ESOP	N/A	Note 2
201812	33.1 -34.3	30,000,000,000	300,000,000,000	3,103,238,894	31,032,388,940	Exercised ESOP	N/A	Note 2
201903	33.1	30,000,000,000	300,000,000,000	3,053,415,894	30,534,158,940	Exercised ESOP	N/A	Note 2
	-					Repurchased shares were canceled		Note 3
Note 4	33.1	30,000,000,000	300,000,000,000	3,053,504,894	30,535,048,940	Exercised ESOP	N/A	Note 2

Note 1: Approval document No. and approval date: Jin-Guan-Zheng-Fa-Zi No. 1050051255 dated December 22, 2016 from the FSC.

Note 2: Approval document no. and approval date: Jin-Guan-Zheng-Fa-Zi No. 1040033035 dated August 24, 2015 from the FSC.

Note 3: Approval document no. for share buyback: Jin-Guan-Zheng-Jiao-Zi No. 1080301709 dated January 17, 2019 from the FSC.

Note 4: There have 89,000 shares have not been registered for change.

Unit: Share; April 1, 2019

Type of stock	Authorized capital			Remarks
	Outstanding shares (Note)	Outstanding Un-issued shares	Total shares	
Common Stock	3,033,504,894	26,966,495,106	30,000,000,000	

Note: Listed shares in circulation does not include the Company's treasury stock of 20,000,000 shares.

II. Composition of Shareholders

April 1, 2019

Composition of Shareholders / Quantity	Government agencies	Financial institutions	Other juridical person	Domestic natural person	Foreign institutions & natural person	Total shares
Number of shareholders	1	40	276	129,713	857	130,887
Shareholding (shares)	17,807,278	56,128,326	1,997,798,988	355,354,852	626,415,450	3,053,504,894
Holding (percentage)	0.58	1.84	65.43	11.64	20.51	100

III. Distribution of Shareholding

Par value: NT$10 per share

April 1, 2019

Shareholding range	Number of shareholders	Ownership (shares)	Ownership (percentage)
1 - 999	71,271	9,402,970	0.31
1,000 - 5,000	47,094	94,521,401	3.10
5,001 - 10,000	6,520	52,246,633	1.71
10,001 - 15,000	1,762	22,531,924	0.74
15,001 - 20,000	1,244	23,193,346	0.76
20,001 - 30,000	883	22,757,754	0.75
30,001 - 40,000	474	17,121,630	0.56
40,001 - 50,000	324	15,248,574	0.50
50,001 - 100,000	563	40,995,984	1.34
100,001 - 200,000	259	37,046,501	1.21
200,001 - 400,000	171	47,580,652	1.56
400,001 - 600,000	82	39,919,544	1.31
600,001 - 800,000	47	32,463,856	1.06
800,001 - 1,000,000	29	26,048,388	0.85
Over 1,000,001	164	2,572,425,737	84.24
Total shares	130,887	3,053,504,894	100

IV. List of major shareholders

Names, shares and shareholding ratio of shareholders with 5% or more shares or top ten shareholders:

April 1, 2019

Name of major shareholder \ Shares	Shareholding (shares)	Holding (percentage)
Nan Ya Plastics Corp.	907,303,775	29.71
Formosa Chemicals & Fibre Corp.	334,815,409	10.96
Formosa Plastics Corp.	334,815,409	10.96
Formosa Petrochemical Corp.	334,815,409	10.96
BlackRock Global Funds - Asian Growth Leaders Fund	31,054,000	1.02
Mai-Liao Power Corporation	26,261,393	0.86
Artemis Global Income Fund	24,871,939	0.81
Cathy Life Insurance Co., Ltd.	22,777,000	0.75
Fidelity Investment Trust: Fidelity Series Emerging Markets Fund	21,292,000	0.70
BlackRock Global Funds - Asian Dragon Fund	17,878,000	0.59

V. Market Price, Net Worth, Earnings, and Dividends per Common Share

Item \ Year			2017	2018
Market price per share (Note 1)	Highest market price		91.20	107.50
	Lowest market price		43.80	45.10
	Average market price		61.68	75.37
Book value per share	Before distribution		44.54	54.02
	After distribution		41.03	Not yet distributed
Earnings per share (NT$)	Weighted average shares		2,806,025	3,074,181
	Weighted average shares (adjusted)		—	—
	Before adjustment		14.36	12.8
	After adjustment		—	—
Dividends per share	Cash dividends (Note 2)		3.508727	7.15365144
	Stock dividend	Stock dividends from retained earnings	—	—
		Stock dividends from capital surplus	—	—
	Accumulated undistributed dividends		—	—
Return on Investment	Original PE ratio	(Note 3)	4.30	5.89
	Adjusted PE ratio	(Note 3)	—	—
	Price-dividend ratio	(Note 4)	17.58	10.54
	Cash dividend yield	(Note 5)	5.69	9.49

Note 1: Per share of market price is based on the information of Taiwan Stock Exchange Co., Ltd.
Note 2: Dividends for the year are distributed in the following year. Distribution of 2018 earnings is an estimate and has not yet been approved by the Annual General Meeting.
Note 3: Price / earnings ratio = average market price / adjusted earnings per share
Note 4: Price / dividend ratio = average market price / cash dividends per share
Note 5: Cash dividend yield rate = cash dividends per share / average market price

VI. Dividend Policy and Implementation Status

(I) Dividend Policy

Whenever there are profits of the Company, it shall be used to pay all outstanding taxes, recover the Company's accumulated losses, and set aside 10% thereof in a legal reserve. Thereafter, the remaining profit, if any, after set aside a special reserve or reserves for certain undistributed earnings for business purposes, shall collectively with any undistributed surplus earnings from previous fiscal years, be included in a surplus earning distribution plan submitted by the Board of Directors for approval at an Annual Shareholders' Meeting.

The Company belongs to a high-technology and capital intensive industry and its operations are still experiencing significant growth. To accommodate the long-term financial projection of the Company, the Company adopts the policy that dividends shall be distributed appropriately in accordance with the Company's budget of capital expenditures. In principle, the stock dividends distributed by the Company shall not exceed 50% of the total distributable dividends of that year.

The Company will strive to maintain a stable dividend policy, and mainly dividends will be distributed by cash when free cash flow is sufficient to cover capital expenditure and other payment. The target of our dividend policy is around 45% of our operating income.

(II) Current Proposal to Distribute Profits

The Board meeting on February 27, 2019 proposed the distribution of NT$21.7 billion in cash dividends. The dividends distribution proposal will be resolved at Annual General Meeting on May 30, 2019, and will be handled according to related regulations. If the total number of outstanding shares increases due to employees exercising their stock option rights and the distribution ratio to shareholders needs to be updated, the Annual General Meeting will be requested to authorize the Board of Directors to handle the adjustment.

(III) Expect material change in dividend policy: N/A

VII. The effects of the stock dividends proposed by the shareholders' meeting on the Company's business performances and earnings per share: N/A.

(We did not release any financial forecasts).

VIII. Remuneration of employees and directors

(I) The percentages or ranges of employees, director's compensation as stated in the Company's Articles of Incorporation:

The Company shall appropriate 1% to 12% for employees'

compensation from its profit, if any, before tax. However, the Company's accumulated losses shall have been covered.

The Company may have the profit distributable as employees' compensation distributed in the form of shares or in cash, and the qualification requirements of employees, including the employees of subsidiaries of the Company meeting certain specific requirements, entitled to receive compensation shall be determined by the Board of Directors.

Remuneration to employees are decided in accordance with Article 235 of the Company Act.

(II) The accounting treatment of the discrepancy between the actual distributed amount and the estimated figure for the current period:

The bases for estimating the amount of employee and director remuneration are based on relevant laws, the Company's Article of Incorporation, and past experience. The difference, if any, between actual distribution and estimated amount will be included in the profit or loss in the following fiscal year based on relevant accounting principles.

(III) Distribution of Compensation Approved by the Board of Directors:

The Board Meeting on February 27, 2019 approved:

1. Employee remuneration in the amount of NT$1,740,000,000 will be distributed in cash and is consistent with the estimated amount.
2. Share amount of employees' stock compensation is 0, percentage of the share amount to that of all stock dividends are 0%.

(IV) Distribution of Employee and Director compensation in the past year (including the number of shares, amount and stock price); the difference (when present) between the recognized compensation of employees and directors, the reasons, and the handling situation shall be stated

Amount approved in the Board meeting on February 26, 2018 and the amount distributed:

1. Employee remuneration in the amount of NT$1,362,183,000 was distributed in cash.
2. Actual share amount of employees' stock compensation is 0, percentage of the share amount to that of all stock dividends are 0%.
3. The amount of employee remuneration distributed was NT$1,830,000 different from the estimated amount of NT$1,364,013,000 approved by the Board of Directors, and was mainly due to remuneration not distributed to resigned employees. The change was treated as changes in accounting estimates and will be recognized in 2018.

IX. Repurchase of Common Stock

April 1, 2019

Phase of repurchase	1st meeting in 2018	2nd meeting in 2018
Date of Board resolution	November 12, 2018	
Purpose of repurchase	Transferred to employees	Safeguard the Company's credit and shareholders' rights and interests
Expected repurchase period	November 13-28, 2018	November 29, 2018 to January 11, 2019
Expected price interval of stock repurchase	NT$38-79	
Expected type and quantity of repurchased shares	20,000,000 common shares	100,000,000 common shares
Type and quantity of actually repurchased shares	20,000,000 common shares	50,136,000 common shares
Average price of repurchased shares (including transaction fees)	NT$57.35	NT$53.17
Amount of repurchased shares (including transaction fees)	NT$1,146,932,497	NT$2,665,620,924
Number of shares canceled and transferred	0 shares	50,136,000 shares
Accumulated quantity of NTC shares held	20,000,000 shares	
Accumulated quantity of NTC shares held to total outstanding shares (%) (Note)	0.65%	
Reason for incomplete share repurchase after the repurchase period expired	—	We did not complete the share repurchase to protect shareholders' interests and due to considerations for market mechanisms.

Note: Calculated using 3,053,504,894 outstanding shares (in which change of registration has not been completed for 89,000 shares in employee stock warrants).

X. Corporate bond issuance status: None

XI. Status of Preferred Stock: None

XII. Issuance of Global Depositary Receipts: None

XIII. Status of Employee Stock Options Plan

(I) Issuance of Employee Stock Options

April 1, 2019

ESOP granted	2015-1	2015-2
Approval date by the securities & futures bureau	August 24, 2015	August 24, 2015
Issue (grant) date	May 10, 2016	August 11, 2016
Number of options granted	97,500 units	2,500 units
Percentage of shares exercisable to outstanding common shares (Note)	3.19%	0.08%
Option duration	8 years	8 years
Source of option shares	Issuing new common shares	Issuing new common shares
Vesting schedule (%)	Upon 2 years from the issue date, available subscription ratio for exercising: 50% (accumulated) Upon 3 years from the issue date, available subscription ratio for exercising: 75% (accumulated) Upon 4 years from the issue date, available subscription ratio for exercising: 100% (accumulated)	
Shares exercised	43,220,000 shares	803,000 shares
Value of shares exercised	NT$1,479,803,600	NT$27,542,900
Shares unexercised	54,280 Unit	1,697 Unit
Exercise price per share	NT$33.1	NT$34.3
Percentage of shares unexercised to outstanding common shares (%)(Note)	1.78%	0.06%
Impact to shareholders' equity	This will attract and retain technology and specialized talent required by the company, encourage employees and strengthen their sense of belonging, and maximize profits for shareholders. Dilution to shareholders' equity is 3.19%.	This will attract and retain technology and specialized talent required by the company, encourage employees and strengthen their sense of belonging, and maximize profits for shareholders. Dilution to shareholders' equity is 0.08%.

Note: Calculated using 3,053,504,894 outstanding shares (in which change of registration has not been completed for 89,000 shares in employee stock warrants).

(II) Employee stock options granted to management team and to top 10 employees:

April 1, 2019

	Title	Name	Number of Options Granted % of shares	exercisable to outstanding common shares	Shares exercised				Shares unexercised (Note 3)			
					Shares Exercised	Exercise Price Per Share	Value of Shares Exercised	% of shares exercised to outstanding common shares	Shares Exercised	Exercise Price Per Share	Value of Shares Exercised	% of shares exercised to outstanding common shares
Managerial Officers	President Executive Vice President Vice President Vice President Vice President Assistant Vice President Assistant Vice President Assistant Vice President Assistant Vice President Assistant Vice President Assistant Vice President Finance Officer Accounting Officer	Pei-Ing Lee Lin-Chin Su (Note 1) Joseph Wu Rex Chuang Yau-Ming Chen (Note 2) Wesley Chang Chi-Meng Su Mark Mao Jeff J.P. Lin Rex Chen Chuan-Jen Chang Philip Jao Hung-Chi Kuo	5,490,000 shares	0.1798%	2,113,000 shares	NT$33.1-33.3	NT$71,260,300	0.0692%	3,377,000 shares	NT$33.1	NT$111,778,700	0.1106%

Note 1: Senior Vice President Lin-Chin Su was promoted to executive vice president on March 8, 2019.

Note 2: Assistant Vice President Yau-Ming Chen was promoted to vice president on March 8, 2019.

Note 3: Number of unexercised shares and amount as of April 1, 2019.

April 1, 2019

	Title	Name	Number of Options Granted % of shares	exercisable to outstanding common shares	Shares exercised				Shares unexercised(Note 2)			
					Shares Exercised	Exercise Price Per Share	Value of Shares Exercised	% of shares exercised to outstanding common shares	Shares Exercised	Exercise Price Per Share	Value of Shares Exercised	% of shares exercised to outstanding common shares
Employees	Executive Administrator Senior Director Senior Director Director Director Director Director Director Director Deputy Director Deputy Director	Yao-Hsiung Kung Wooder Yang Hsu-Cheng Fan Dong-Liung Yang Wen-Hao Chang Peter Chen Eric Chuang Carver Liu Chiang-Lin Shih Yen-Nan Chang Benjamin Huang	1,950,000 shares	0.0639%	973,000 shares	NT$34.3	NT$33,373,900	0.0319%	977,000 shares	NT$33.1	NT$32,338,700	0.032%

Note 1: Deputy Director Chiang-Lin Shih was promoted to director on April 16, 2018.

Note 2: Number of unexercised shares and amount as of April 1, 2019.

XIV. Status of new shares issuance in connection with mergers and acquisitions: None

XV. Financing plans and implementation-cash funding application: None

E. Operations overview

I. Business content

(I) Business scope

NTC has been focusing as a key supplier in global specialty DRAM market with outstanding product research and development capabilities and competitive production cost advantage. We have been committed to providing high quality and advanced memory products and services.

Our main product lineup:

1. DRAM chips

(1) DDR DRAM
- Capacity: 512Mb
- Speed: 400 Mb/s

(2) DDR2 DRAM
- Capacity: 512 Mb、1Gb
- Speed: 800 Mb/s、1066 Mb/s

(3) DDR3 DRAM
- Capacity: 1Gb、2Gb、4Gb
- Speed: 1600 Mb/s、1866 Mb/s、2133 Mb/s

(4) DDR4 DRAM
- Capacity: 4Gb、8Gb
- Speed: 2400 Mb/s、2667 Mb/s、3200 Mb/s

(5) LPDDR
- Capacity: 512Mb、1Gb
- Speed: 333 Mb/s、400 Mb/s

(6) LPDDR2
- Capacity: 1Gb、2Gb、4Gb
- Speed: 1066 Mb/s

(7) LPDDR3
- Capacity: 4Gb
- Speed: 1600 Mb/s、1866 Mb/s

(8) LPDDR4(X) (Note: Currently in development)
- Capacity: 2Gb、4Gb、6Gb、8Gb
- Speed: 3200 Mb/s、3733 Mb/s、4267 Mb/s

2. Wafer production services

In response to meeting market demand in the future, NTC continue to develop products toward higher speed and lower power consumption. Under the cooperation of our R&D teams, we continue to introduce new generation of memory components to market. Meanwhile, we also provide foundry service for

value-added semiconductor products.

3. Plans of developing new products and services

The business focuses are aiming at the applications of consumer electronic, mobile devices and servers with the offering of comprehensive product lineup for fulfilling the variety of market needs. Our product portfolio includes 512Mb/1Gb DDR2, 1/2/4Gb DDR3, 4/8Gb DDR4, 512Mb/1Gb LPDDR, 1/2/4/8Gb LPDDR2, 4/8Gb LPDDR3 and 4/8Gb LPDDR4/4X. In the development of 20nm products: 8Gb DDR4 server products were certified by server customers and began mass production in the third quarter of 2018. We expect to complete internal certification and customer certification for 4Gb/8Gb LPDDR3 and 2Gb/4Gb/8Gb LPDDR4/4X in 2019 to provide customers with a complete product portfolio.

(II) Industry Overview

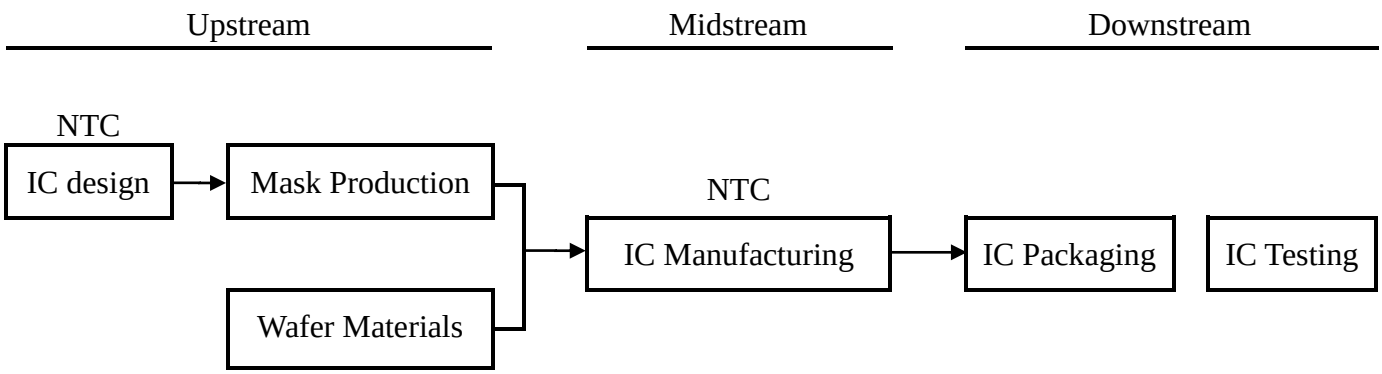
1. DRAM industry current status and development

DRAM is an oligopoly market controlled by top 3 suppliers, including Samsung, SK Hynix, and Micron, with more than 90% market share in total. Under current industry structure, the main suppliers will be more conservative in capacity investment and focus on keeping profitability first. The capacity expansion is expected to be rational and disciplined. The conversion of advanced processes is much more difficult than before, and annual bit growth has slowed down. We steadily maintained our market share at about 3% in 2018. This year, we will continue to focus on niche application markets, such as consumer electronics and automobile specifications, and will expand into mainstream markets that the top three suppliers are focused on.

End applications of DRAM have expanded from being concentrated in PC related applications to a wide range of applications, in which smartphones are the largest market segment and servers/data centers are the fastest growing market segment due to the rapid growth of cloud applications. Once commercial operations of 5G and artificial intelligence applications begin, self-driving cars, edge computing, and a variety of emerging applications are expected to inject new energy into the market.

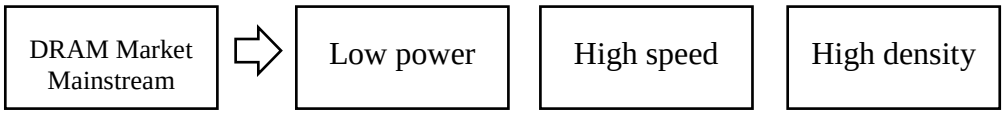
2. Up-, mid-, and downstream DRAM industry supply chain

IC industry (including DRAM) is categorized as IC design, mask making/wafer material in upstream area, IC production in midstream area, IC packing and testing in downstream area. The whole industry system is illustrated as below table. Our operations involve upstream DRAM design and midstream DRAM manufacturing.



3. Product Development Trends

(1) The main application trends:



DRAM application trends ⇨

Mobile Devices	● Demand on smartphones has gradually saturated after a period of rapid growth. Different manufacturers offer similar functions, such as AI and multiple cameras, which have not incresaed consumers' intertests, resulting in a longer replacement cycle while waiting for the commercial operation of 5G in 2020. Hence, shipments are expected to decrease by a low, single-digit percentage in 2019. Brand name makers are increasing product differentiation by increasing the average DRAM capacity on their products. ● Flagship models released in 2019 have 10-12 GB DRAM, and will increase the capacity on phones at all levels.
Servers	● Demand on servers from data centers in North America and China has stably increased under the rise of cloud computing and IoT. The release of new platforms in the second quarter of 2019 is expected to drive new demand on servers. Furthermore, telecom operators have begun establishing 5G infrastructure and become another source of service shipment growth.
Personal Computers	● The CPU shortage began having an effect in the fourth quarter of 2018, and supply is expected to return to normal in the middle of 2019.
Consumer Electronics	● Set-top boxes, smart speakers, SSD, IP CAM, and wearable devices (smart watches and glasses) are the highlights of sales this year. ● Demand on DRAM has stably increased as applications come with higher DRAM content.

(2) Performance requirements

A. High Density:

Following the arrival of the 10nm process era, 8Gb will be the mainstream product capacity in 2019. The mainstream applications are smartphones, servers, PCs, SSD, and switches. The main 3 DRAM suppliers will continually improve yield of 1Y nm technology to increase output.

B. High Speed:

DRAM specifications have increased in response to the increasing ratio of video/graphic content in data transmission, the highest speed DDR4 can reach is DDR4-3200 Mb/s and LPDDR4 can run is LPDDR4-4266 Mb/s.

C. Low Power Consumption:

As the threat of global warming is escalating, low voltage and low power features are key requirements for smart phones, servers, PCs, consumer electronic and automotive devices.

D. Function Requirements:

(a) High data transmission rate and broadband:

The high data transmission rate provided by DDR4 has made it the mainstream specification of servers and personal computers, while broadband LPDDR4/X has been widely adopted in smartphones.

(b) Diverse package specifications:

In response to diversity of application needs, DRAM package specifications spectrum expanded including module for PC/servers, PoP/eMCP for smart phones, SiP (System in Package) for digital TV, and MCP for Data Card.

4. Competition situation

The current global DRAM oligopoly market is controled by Samsung, SK Hynix, and Micron, all of them own advanced technologies. In total, they account for more than 90% of DRAM market. These top 3 suppliers are aiming at the applications of smart phones, servers, and PCs.

(III) Technology and R&D Status

1. Development Strategy

To meet the market trends, The Company has been focusing on specialty market development, which includes consumer, low power and server segments. We will continue to develop high speed DDR4 and low power LPDDR4 products on the basis of our 20nm process technology. We will continue to develop DRAM products with advanced 10nm class process technologies to provide comprehensive product lineup for

fulfilling the requirements by next-generation consumer electronic devices.

2. Annual R&D Expenses over the past 5 years (Based on Consolidated Financial Statements Report)

Unit: NT$ thousands

Year	2014	2015	2016	2017	2018
R&D Expenses	1,377,524	1,953,662	2,478,069	3,673,056	4,887,311

3. Successfully developed technologies and products

The Company has developed 16Mb, 64Mb, 128Mb, 256Mb, 512Mb, 1Gb, 2Gb and 4Gb DRAM products successfully. DDR4 8Gb DRAM has also been launched to the market. Below are the summaries:

(1) Successfully transfer 0.45μm, 0.36μm, and 0.32μm 16Mb DRAM design, manufacturing process, and element analysis from OKI within 2 years from setting up the 1st factory. Quickly achieve high yields in both wafer and finished goods, and immediately adopt computer automated production management.

(2) Successfully self-development 0.32μm 5V 16Mb EDO DRAM.

(3) Successfully finished design of 4 products, 0.32μm 16Mb SDRAM, 0.28μm 16Mb (2M×8), 0.28μm 64Mb SDRAM and 0.28μm 16Mb SDRAM (1Mb×16), within 2 years. 0.32μm SDRAM and 0.28μm 16Mb SDRAM (1Mb×16) was the main products at that time.

(4) Successfully transfer 0.2μm 64Mb and 0.175μm 256Mb DRAM from IBM. Self-develop 128Mb DRAM based on IBM technology platform, quickly introduce to production line and achieve the desired yield.

(5) Successfully convert FAB-1 from stack technology process to trench technology process. Successfully convert FAB-2 from 0.20μm technology to 0.175μm technology within 8 months from start-up and achieve the desired yield.

(6) Successfully shrink 64Mb and 128Mb DRAM to 0.175μm technology. As to the gross dies of 64Mb DRAM can exceed 1,100 ea per 8-inch wafer; it is very cost-competitive.

(7) Successfully create the combo design of 0.175μm 128Mb and 256Mb SDR/DDR.

(8) Successfully co-develop 0.14μm technology and products with IBM and quickly implement into production line.

(9) Successfully design 0.175μm PC333 DDR product. Successfully develop DDR400 with 0.14μm technology product to ensure the leading position in DDR products.

(10) Successfully design 0.14μm DDR1 128Mb specialty product and implement into mass production.

(11) Successfully design 0.11μm DDR1 256Mb and 512Mb products and implement into mass production.

(12) Successfully design 0.11μm DDR2 400, 533, 667 and 800 products and implement into mass production to ensure the leading position in DDR2 products.

(13) Successfully design 0.90μm DDR1 512Mb and DDR2 400, 533, 667 and 800 products and implement into mass production to ensure the leading position in DDR2 products.

(14) Successfully develop 0.70μm DDR2 512Mb, DDR2 1Gb and DDR3 1Gb products.

(15) Converted to 42nm technology in the fourth quarter of 2010. Successfully completed customer certification of 50nm DDR2 1Gb, 50nm DDR3 2Gb, and 42nm DDR3 2Gb and internal certification of 42nm DDR3 4Gb.

(16) Successfully began mass production of LPDDR memory products and developed 30nm process for DDR3 2Gb in the second half of 2011.

(17) Completed the internal certification of 30nm DDR4 4Gb in the first half of 2012, completed customer certification the same year, and also completed internal certification and customer certification of LPDDR2 512 Mb.

(18) In the first half of 2013, finish low power product, LPDDR2 4Gb internal and customer qualification and implement into mass production in Q2 of 2013.

(19) In the second half of 2013, completed the internal certification of 30nm DDR4 4Gb. Provided customers with early DDR4 products for certification, started developing LPDDR2 1Gb, and began internal certification of LPDDR3 4Gb in the same year.

(20) In the first half of 2014, finish the internal and customer qualification of LPDDR3 4Gb. In Q3 of 2014, start LPDDR3 4Gb mass production and trigger 30nm shrink products design to improve the product competitiveness.

(21) In second half of 2014, finish 30nm shrink product development and implement to mass production, including 4Gb DDR3 and 1Gb LPDDR2.

(22) In first half of 2015, finish 30nm shrink product development and implement to mass production, including 1/2/4Gb DDR3 consumer products. In the second half of 2015, finish 30nm 4Gb DDR4 product development and start to mass production. Finish internal qualification for 30nm shrink mobile products, including 2Gb LPDDR2 and 4Gb LPDDR3 in Q4 of 2015.

(23) In the second half of 2016, completed internal certification, customer

certification, and mass production of 30nm 512Mb DDR2 consumer shrink products.

(24) In the first half of 2017, finish 20nm 4Gb DDR3 consumer product qualification and implement to mass production.

(25) In Q4 of 2017, finish 20nm 8Gb DDR4 product development, qualification and implement to mass production.

(26) In Q3 of 2018, completed internal certification, customer certification, and mass production of 20nm 4Gb DDR3 consumer products.

(IV)Long-Term and Short-Term Sales Development Plan

1. Short-Term Sales Development Plan

(1) Target consumer electronics and mobile devices as the major markets.

(2) Work closely with key customers in the server market.

(3) Offer a complete product portfolio to meet various demands and to offer low/middle/high capacities.

2. Long-Term Sales Development Plan

(1) Continue migration to advanced tech node and offer a complete product portfolio to meet various demands and to offer low/middle/high capacities.

(2) Dedicate to consumer, mobile and server markets.

(3) Provide packaged devices, KGD, automotive grade, industrial grade, Multi-Chip Package (MCP), and customized services to enhance product added-value and competitiveness.

II. Market Status and the Overview of Sales and Production

(I) Market Status

1. Sales Regions

The Company has a worldwide customer base. To provide the fast and real time service, we set up a global sales network which includes the U.S., Europe, Japan, China and Taiwan. The sales to China and Asia pacific are about 77% of total revenue. We will continue expanding the customer groups in all sale regions, and the revenues from all regions will keep growing due to diversifying market applications and customization of products.

2. Market Share

The global market's main DRAM suppliers include Samsung, SK hynix, Micron, and Nanya Technology Corporation. In 2018, The Company was ranked number 4 with 3% market share.

Source: DRAMeXchange, NTC

3. DRAM Market Outlook

Among DRAM end applications, smartphones and servers/data centers are the most important market segments. Smartphones are currently going through a transition period to 5G, and shipment growth has slowed within the short-term, but the memory content on each smartphone is expected to continue increasing. Server bit demand growth has surpassed that of smartphone applications. Mobile computing, artificial intelligence, the Internet of Things, and cloud applications continue to drive significant growth of the data center industry. After considering the growth momentum of other market segments, overall DRAM bit demand of the global market is expected to grow by high double digits in 2019 compared that in 2018.

With regard to DRAM supply, according to news reports, the three major DRAM suppliers have implemented production capacity and output adjustment plans in response to the slow market condition currently. Summarizing the information available to us, we expect overall DRAM bit supply growth in 2019 to remain at a high double digit percentage.

Over a short period of time from the fourth quarter of 2018 to the first quarter of 2019, demand on DRAM weakened due to the global economic slowdown, the electronic products supply chain adjustment caused by the U.S.-China trade war, and insufficient CPU supply. The DRAM price drop was worse than expected, but is expected to slow down as our customers adjust their inventories in the second quarter. The third quarter is the seasonally high quarter in all market segments, and we expect to see the U.S. and China reach an agreement by that time. Supply chain adjustments are expected to be completed and CPU supply is expected to be increased, allowing the overall DRAM market to gradually

return to a stable state. From a long-term perspective, DRAM is a key component in all electronics products and is required in smart applications. Hence, we expect the DRAM market to maintain steady growth in the long run.

4. Competitive Niche

There are diversified applications and many product specs in the DRAM market, and our company is identified as a key vendor who provides niche memory products.

5. Favorable and Unfavorable Factors Affecting Our Development

(1) Favorable Factors

A. DRAM market structure already becames an oligopoly. The market is expected to remain steady and disciplined.

B. Focus on consumer and low power niche markets, and continue to expand market shares in automotive, networking, customized segments which require long-term and stable supply.

C. Develop and offer customers our complete product lines with advanced 20nm and future 10nm class technology.

D. With the strong support from Formosa Group, and its strict production management system and strong bargaining power, we are superior to other suppliers in cost control area.

(2) Unfavorable Factors

A. The difficulties of develop DRAM advanced technology are high and the investment amount become huge.

B. The market applications are diversified and new applications are introduced at any time.

C. Threats from new comers, no impact in the near term, but need to monitor their development longer term.

(3) Response Measures

A. Develop 10nm class technology to remain competitive.

B. Develop high density products and focus on the server market.

C. With a high-quality customer service, we have established a close strategic alliance with our chip vendors and customers to jointly develop new generations of consumer electronics products and to meet diverse needs.

D. To deeply root in consumer and low-power application markets, and develop automotive, networking, industrial niche market segments which require long-term and stable supply.

E. Collect market information, stay up-to-date on customer trends, and flexibly adjust product portfolio to maintain steady operations.

(II) Key Applications of Primary Products and the Production Process

1. Important Applications of Primary Products

NTC's primary products are DRAM (Dynamic Random Access Memory) and other memory products. DRAM products are used to store the data while data processing and have a wide range of applications, such as mobile phones, servers, PC, consumer electronics and automotive applications.

2. Production Process

The production of integrated circuits can divide into three stages: making the silicon wafers, making the integrated circuits, and packing the integrated circuits. Nanya focuses making of integrated circuits. The process, which takes approximately one to two months from start to finish, is very complicated and basically comprised several hundreds of different steps. The circuits are printed on the wafer using layers of masks by repeating processes including lithography, etching, oxidation, ion implantation, and thin film several timers. Then, the wafers are sent to the testing area to verify the functions of each IC. Th wafer is then sent to the packaging house for packaging and testing.

(III) Supply of Raw Materials

Raw materials include silicon wafers and chemicals such as photoresist, special gases, and abrasives, and they are provided by the world's leading semiconductor material suppliers from Japan, the U.S. and Taiwan who guarantee quality and stable supply. To diversify the risk of material supply, the Company has alternative solution to ensure the supply chain will not be interrupted by accidents.

We organize "open bids" through the procurement system of Formosa Technology E-Market Place, and provide vendors with online inquiry, quotation, negotiation, purchase order, delivery, and payment progress inquiry functions. All information is encrypted via electronic certificates and protected by a firewall to ensure the safety of all data being transferred. Vendors can check requests for quotation online at any time and place, and provide quotations accordingly, significantly increasing operating efficiency while saving time and money. It also reduces operating cost and increases sales profits. After the computer opens all bids for a request for quotation, the vendor that bids the lowest price with a delivery time and quality that meet requirements will be given priority, this way both buyer and seller can achieve their goals in a harmonious atmosphere.

We implement comprehensive supplier management and assessment to achieve stable material quality and delivery, and also ensure the quality and progress of construction. All suppliers are assessed and graded when they

register, and any late delivery (construction), poor quality, or violation of labor safety by suppliers are automatically included in their assessment records. This eliminates lower grade suppliers and maintains long-term relationships with good suppliers.

We combine the ERP computer management system that we have perfected over the years with our quantified, open, and transparent online procurement mechanism to create a high quality, safe, convenient, and fast electronic trading environment. We have expanded to other vertical and horizontal industries to share the "Formosa Plastics Experience" with all enterprises in an electronic era. At present, our supply chain consists of over 10,000 suppliers and contractors who share the business opportunities and economic benefits of open transactions on this electronic transaction platform.

(IV) Suppliers/Customers Accounted for at Least 10% of Annual Procurement/Sales

1. Major Customers for the Last Two Years

Unit: NT$ thousands; %

Item	2017				2018			
	Company Name	Amount	Proportion of total net sales value for the entire year (%)	Relationship with issuer	Company Name	Amount	Proportion of total net sales value for the entire year (%)	Relationship with issuer
1	WPI	7,001,118	12.7	N/A	KINGSTON	19,139,559	22.6	N/A
2	KINGSTON	6,538,291	11.9	N/A	—	—	—	—
	Other	41,378,815	75.4		Other	65,582,245	77.4	
	Net sales	54,918,224	100.0		Net sales	84,721,804	100.0	
Analysis of Changes in the Most Recent Two Years: The expansion of our product portfolio and increasing sales in the standard DRAM market in 2018.								

2. Major Suppliers for the Last Two Years

Unit: NT$ thousands; %

Item	2017				2018			
	Company Name	Amount	As a percentage of net purchase ratio (%)	Relationship with issuer	Company Name	Amount	As a percentage of net purchase ratio (%)	Relationship with issuer
1	FORMOSA SUMCO Technology Corp.	1,375,540	13.9	Interested party	FORMOSA SUMCO Technology Corp.	1,729,352	11.6	Interested party
	Other	8,555,255	86.1		Other	13,133,200	88.4	
	Net purchase	9,930,795	100.00		Net purchase	14,862,552	100.00	
Analysis of Changes in the Most Recent Two Years: FORMOSA SUMCO Technology Corp. was still a major supplier for NTC in 2018.								

(V) Production over the Last Two Years

Unit: NT$ thousands; Thousands

Year / Output / Products	2017			2018		
	Production capacity (Note)	Output volume	Amount	Production capacity (Note)	Output volume	Amount
Memory	690,000 a year	972,664	51,938,180	800,000 a year	1,187,182	92,625,955
Total shares	—	—	51,938,180	—	—	92,625,955

Note: Production capacity refers to total output.

(VI) Shipments over the Last Two Years

Unit: NT$ thousands; Thousands

Year / Sales / Main Products	2017				2018			
	Domestic sales		Export		Domestic sales		Export	
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
Memory	337,757	15,289,059	700,283	39,482,100	337,769	21,477,722	744,601	63,101,314
Other	—	145,288	—	1,777	—	141,681	—	1,087
Total shares	—	15,434,347	—	39,483,877	—	21,619,403	—	63,102,401

III. Number of employees, average years of service, average age, and distribution of academic qualifications in the most recent two years up to the date of annual report publication

Unit: Persons

Year		2017 (Note)	2018	As of March 31, 2019
Number of employees (Persons)	Indirect labor	1,974	2,044	2,068
	R&D staff	540	588	592
	Direct labor	525	587	570
	Total shares	3,039	3,219	3,230
average age		36.75	36.78	36.97
average seniority		9.2	9.39	9.54
Academic qualification(%)	Ph.D	0.92	0.84	0.84
	Master	33.33	33.71	34.4
	Bachelor	57.39	57.28	56.78
	higher School	8.33	8.14	7.95
	Under high school	0.03	0.03	0.03

Note: Includes 55 employees of PieceMakers Tech. Inc. (NTC has resolved to dispose of all the PieceMakers Tech. Inc. shares and completed the equity transaction on February 26, 2018).

IV. Environmental Expenses Information

We introduced the environmental accounting system in 2008 and the environmental benefits accounting system in 2009; the systems were formally implemented in 2010. The environmental accounting system allows us to monitor environmental expenditure information, evaluate the benefits from environmental expenditures, and concretely and correctly disclosure our environmental protection measures to stakeholders. Statistics are compiled for each category of environmental protection expenditures according to the rules established by the Environmental Protection Administration, and are used for internal management, so that the public will understand the environmental protection efforts of enterprises. We added data on labor safety, fire safety, and hygiene equipment and expenses to our environmental accounting statistics in 2013, and included all EHS related expenses into the statistics. Statistics show that our capital expenditures in 2018 totaled NT$475,265,000, and environmental expenses was NT$644,055,000, amounting to NT$1,119,320,000. Environmental expenditures accounted for 1.32% of our 2018 consolidated revenue of NT$84.72 billion.

NTC is committed to promoting environmental protection management, formulating environmental and safety performance indicators, promoting various waste reduction and resource reuse, greenhouse gas reduction and other projects, in order to comply with the trend of global environmental protection. NTC environmental protection certificate management, testing contents, and reporting items were all handled according to the laws. There was no violation of environmental protection regulations in 2018.

V. Labor Relations

(I) The Company's employee benefits, continuing education, training, retirement system, and actual state of implementation, as well as labor-management negotiations and measures for employee rights protection:

1. Employee Welfare Measures: We have convenience stores, coffee shops, health care center, gym, basketball and badminton court. In addition, we provide employee dormitory for single personnel; Shuttle bus services are available in several routes. The Employee Welfare Committee plans several activities and provides employees with a gift coupon on the Dragon Boat Festival, Moon Festival, and Birthday.

2. Training and Development: In order to maintain NTC's development strategy and employee's demand of self-development, we provide a series of complete training courses and advanced studies, including new employee training, helping them adapt to company's environment and culture quickly. We systematically provide employees with courses that teach the professional knowledge, skills, and attitudes required for their duties. NTC also plans on-the-job training, professional training, leading and management training. Besides, we also cooperate with well-known universities to set up further study programs, satisfying employee's self-development demand. We will keep going to offer multiple resources and enhance our demand of employee's competitive in global.

3. Retirement Plan and Its Practices: To keep employee's mind on his work and make his retirement life with good quality, NTC has established a Retirement Plan according to Regulations Governing the Retirement of the Factory Workers of Taiwan Province, Labor Standards Act, and Labor Retirement Pension. For those choosing the old pension fund system, the Company has deposit 2% monthly salary to a special retirement Account of Bank of Taiwan. It has been supervised by NTC Worker Retirement Fund Supervisory Committee. For the others choosing the new pension fund system, the Company contributes 6% monthly salary to employee's individual retirement account in accordance with Monthly Contribution Wages Classification of Labor Pension. Employees are eligible to contribute more amounts voluntarily, and the amount will be deposit into his retirement account also. The execution of the Pension Plan is in good condition.

4. In order to enhance the interaction and relationship between employee and management team, we provide a variety of communication channels to realize employee satisfaction of Company's system.

5. NTC has good relationship between employee and management team so far.

(II) Case of Labor Management Conflict which results in any losses at the moment or in the future and disclosure of estimated amount and applicable solutions as of the most recent fiscal years, and during the current fiscal year up to the date of printing of the Annual Report:

NTC complies with local labor laws and protects employees' basic work rights and employee benefits. Keep abreast of the update of labor laws and regulations, review the timeliness of the company's internal management methods, and revise relevant regulations to implement the legal compliance system. We were fined NT$110,000 for 4 deficiencies found during labor

inspections in 2018. We have make adjustments to our systems and established improvement mechanisms in response to the competent authority's explanation and instructions. We have made systems simpler and clearer under the premise of not affecting labor rights. We made it clear that employees do not need to arrive early or leave later unless it is necessary due to their work. As long as employees are required by their official duties, they can apply for overtime according to company regulations to the supervisor for approval. The company must pay overtime according to law. Through the concept of self-inspection and risk prevention, the goal of improving labor rights and improving the quality of the work environment has been eliminated, resulting in unnecessary labor disputes due to lack of understanding.

VI. Material Contracts

Agreements	Party	Term	Summary	Restriction Clause
Service Agreement	Inotera Memory Inc. (Renamed Micron Memory Taiwan, MMT)	From July 15, 2003, until certain termination terms	Service provision	N/A
Amended and Restated Technology Transfer and License Agreement	Micron Technology Inc.	From November 26, 2008, until certain termination terms or mutual termination	Technology transfer and license	N/A
Technology Transfer and License Option Agreement for 20nm Process Node	Micron Technology Inc.	From January 1, 2013, until certain termination terms or mutual termination	Technology transfer and license	N/A
1X/1Y Technology Transfer and License Option Agreement	Micron Technology Inc.	From February 3, 2016, until certain termination terms or mutual termination	Technology transfer and license	N/A

F. Financial Overview

I. Five-Year Financial Summary

(I) Condensed Statements of Financial Position and Comprehensive Income by – by IFRSs

1. Condensed balance sheet

Unit: NT$ thousands

Year / Item		Five-Year Financial Summary (Note 1)				
		2018	2017	2016	2015	2014
Current assets		82,386,911	62,406,327	25,211,686	17,822,621	21,262,018
Property, plant and equipment		95,358,992	86,241,880	67,917,337	49,763,526	51,175,927
intangible assets		45,881	136,550	272,185	406,193	537,136
Other assets		4,794,029	1,994,545	43,575,934	36,013,697	31,577,231
Total assets		182,585,813	150,779,302	136,977,142	104,006,037	104,552,312
Current liabilities	Before Dist.	16,763,342	14,703,104	33,709,907	35,229,599	49,179,746
	After Dist.	Note 2	25,582,392	37,831,724	42,925,583	54,033,142
Non-current liabilities		915,173	3,961,010	17,622,088	13,922,063	13,695,508
Total Liabilities	Before Dist.	17,678,515	18,664,114	51,331,995	49,151,662	62,875,254
	After Dist.	Note 2	29,543,402	55,453,812	56,847,646	67,728,650
Equity attributable to owners of the parent		164,907,298	131,999,865	85,542,818	47,041,705	36,748,057
Common stock		31,038,877	29,863,340	27,485,658	24,285,658	24,748,843
Capital surplus		33,557,005	27,277,191	11,523,007	7,812,701	6,377,936
Retained earnings	Before Dist.	103,367,925	74,898,497	39,092,585	22,991,433	10,816,268
	After Dist.	Note 2	64,019,209	34,970,768	15,295,449	5,962,872
Other equity		(273,834)	(39,163)	7,789,101	(4,570)	5,939
Treasury stock		(2,782,675)	-	(347,533)	(347,533)	(347,533)
Non-controlling interest		-	115,323	102,329	116,686	75,605
Total equity	Before Dist.	164,907,298	132,115,188	85,645,147	54,854,375	41,677,058
	After Dist.	Note 2	121,235,900	81,523,330	47,158,391	36,823,662

Note 1: The Financial Statements from 2013 to 2017 have been audited by KPMG.
Note 2: The proposed distribution of 2018 earnings has yet not been approved by the Annual General Meeting.

2. Condensed statement of comprehensive income

Unit: NT$ thousands

Year / Item		Five-Year Financial Summary (Note)				
		2018	2017	2016	2015	2014
Operating revenues		84,721,804	54,918,224	41,632,505	43,875,905	49,107,622
Gross profit		46,616,003	24,644,147	12,851,093	17,307,996	22,169,028
Operating income		39,355,470	18,791,300	8,552,235	13,487,386	18,804,572
Non-operating income and expenses		2,228,867	23,039,231	17,173,495	4,190,042	12,928,124
Income before income tax		41,584,337	41,830,531	25,725,730	17,677,428	31,732,696
Profit from Continuing Operation		39,360,850	40,294,624	23,728,585	17,171,400	29,251,497
Income (Loss) from Discontinued Operation		—	—	—	—	(1,056,131)
Net income (Loss)		39,360,850	40,294,624	23,728,585	17,171,400	28,195,366
Other comprehensive income of the term (Net income after tax)		(247,580)	(7,897,606)	7,871,871	(123,115)	65,870
Total comprehensive income		39,113,270	32,397,018	31,600,456	17,048,285	28,261,236
Net Income attributable to owners of the parent		39,361,625	40,281,927	23,721,277	17,141,167	28,242,317
Net income attributable to non-controlling interests		(775)	12,697	7,308	30,233	(46,951)
Total comprehensive income attributable to owners of the parent		39,114,045	32,384,321	31,593,148	17,018,052	28,308,187
Total comprehensive income attributable to Non-controlling interest		(775)	12,697	7,308	30,233	(46,951)
Earnings per share	Before adjustment	12.8	14.36	8.67	7.07	11.77
	After adjustment	—	—	—	—	—

Note: The Financial Statements from 2013 to 2017 have been audited by KPMG.

3. Condensed Statements of Financial Position – Stand-alone by IFRSs

Unit: NT$ thousands

Item \ Year		Five-Year Financial Summary (Note 1)				
		2018	2017	2016	2015	2014
Current assets		71,765,971	61,632,067	24,563,252	17,105,847	20,560,689
Property, plant and equipment		95,339,823	86,218,545	67,886,857	49,722,671	51,157,114
intangible assets		45,881	136,442	272,185	406,193	537,136
Other assets		36,014,363	2,529,325	43,987,041	36,279,328	31,767,031
Total assets		203,166,038	150,516,379	136,709,335	103,514,039	104,021,970
Current liabilities	Before Dist.	37,346,075	14,580,862	33,378,569	34,640,036	48,510,026
	After Dist.	註 2	25,460,150	37,501,417	42,336,020	53,363,422
Non-current liabilities		912,665	3,935,652	17,787,948	14,136,314	13,910,491
Total Liabilities	Before Dist.	38,258,740	18,516,514	51,166,517	48,776,350	62,420,517
	After Dist.	註 2	29,395,802	55,289,365	56,472,334	67,273,913
Equity attributable to owners of the parent		—	—	—	—	—
Common stock		31,038,877	29,863,340	27,485,658	24,285,658	24,748,843
Capital surplus		33,557,005	27,277,191	11,523,007	7,812,701	6,377,936
Retained earnings	Before Dist.	103,367,925	74,898,497	39,092,585	22,991,433	10,816,268
	After Dist.	註 2	64,019,209	34,969,737	15,295,449	5,962,872
Other equity		(273,834)	(39,163)	7,789,101	(4,570)	5,939
Treasury stock		(2,782,675)	—	(347,533)	(347,533)	(347,533)
Non-controlling interest		—	—	—	—	—
Total equity	Before Dist.	164,907,298	131,999,865	85,542,818	54,737,689	41,601,453
	After Dist.	註 2	121,120,577	81,419,970	47,041,705	36,748,057

Note 1: The Financial Statements from 2013 to 2017 have been audited by KPMG.
Note 2: The proposed distribution of 2018 earnings has yet not been approved by the Annual General Meeting.

4. Condensed Balance Sheets and Statements of Operations– by ROC GAAP

Unit: NT$ thousands

Item \ Year		Five-Year Financial Summary (Note)				
		2018	2017	2016	2015	2014
Operating revenues		84,269,952	54,086,251	41,023,122	43,129,599	48,589,951
Gross profit		46,292,143	24,257,260	12,503,534	16,914,128	21,727,434
Operating income		39,248,107	18,706,036	8,520,796	13,390,105	18,611,318
Non-operating income and expenses		2,318,431	23,087,047	17,174,078	4,235,753	12,036,503
Income before income tax		41,566,538	41,793,083	25,694,874	17,625,858	30,647,821
Profit from Continuing Operation		39,361,625	40,281,927	23,721,277	17,141,167	28,242,317
Income (Loss) from Discontinued Operation		–	–	–	–	–
Net income (Loss)		39,361,625	40,281,927	23,721,277	17,141,167	28,242,317
Other comprehensive income of the term (Net income after tax)		(247,580)	(7,897,606)	7,871,871	(123,115)	65,870
Total comprehensive income		39,114,045	32,384,321	31,593,148	17,018,052	28,308,187
Net Income attributable to owners of the parent		–	–	–	–	–
Net income attributable to non-controlling interests		–	–	–	–	–
Total comprehensive income attributable to owners of the parent		39,114,045	32,384,321	31,593,148	17,018,052	28,308,187
Total comprehensive income attributable to noncontrolling interests		–	–	–	–	–
Earnings per share (NT$)	Before adjustment	12.8	14.36	8.67	7.07	11.77
	After adjustment	–	–	–	–	–

Note: The Financial Statements from 2013 to 2017 have been audited by KPMG.

(II) Condensed Statements of Comprehensive Income– Stand-alone by IFRSs

NTC has used the International Financial Reporting Standard(s) since 2013. Please refer to the information in the above table for 2014-2018 financial data.

(III) Auditors' Opinions from 2013 to 2017

Year	Accounting firm	CPA's Name	Auditing Opinion
2014	KPMG Certified Public Accountants Firm	Eric Wu and Isabel Lee	An Unqualified Opinion Subsequent to Revision
2015	KPMG Certified Public Accountants Firm	Delphi Chen, Isabel Lee	An Unqualified Opinion Subsequent to Revision
2016	KPMG Certified Public Accountants Firm	Delphi Chen, Isabel Lee	An Unqualified Opinion Subsequent to Revision
2017	KPMG Certified Public Accountants Firm	Delphi Chen, Astor Kou	An Unqualified Opinion Subsequent to Revision
2018	KPMG Certified Public Accountants Firm	Astor Kou and Delphi Chen	An Unqualified Opinion Subsequent to Revision

II. Five-Year Financial Analysis

(I) Financial Analysis – Consolidated by IFRSs

Item \ Year			Five-Year Financial Analysis				
			2018	2017	2016	2015	2014
Capital structure	Debt ratio (%)		9.68	12.37	37.47	47.25	60.13
	Long-term Fund to Property, Plant and Equipment Ratio (%)		173.89	157.78	152.04	138.20	108.20
Liquidity	Current ratio (%)		491.47	424.44	74.79	50.58	43.23
	Quick ratio (%)		408.39	366.56	55.90	29.22	30.95
	Times interest earned (times)		7240.61	92.00	37.47	21.54	27.44
Operating performance	Accounts receivable turnover (times)		9.26	7.68	7.42	7.63	7.73
	Days sales outstanding		39.41	47.52	49.19	47.83	47.21
	Inventory turnover (times)		3.99	5.15	5.33	4.78	4.18
	Accounts payable turnover (times)		9.58	6.74	8.02	19.18	17.12
	Inventory turnover days		91.47	70.87	68.48	76.35	87.32
	Property, plant and equipment turnover (times)		0.93	0.71	0.70	0.86	0.94
	Total assets turnover (times)		0.50	0.38	0.34	0.42	0.49
Profitability	Return on total assets (%)		23.61	28.27	20.17	17.15	29.50
	Return on total equity (%)		26.50	37.00	33.77	35.57	109.15
	Pre-tax income to paid-in capital ratio (%)		133.97	140.07	93.59	72.78	128.21
	Net margin (%)		46.45	73.37	56.99	39.13	57.41
	Earnings per share (NT$)	Before adjustment	12.8	14.36	8.67	7.07	11.77
		After adjustment	—	—	—	—	—
Cash flow	Current Ratio (%)		287.79	154.33	47.30	52.57	54.92
	Quick Ratio (%)		112.59	112.39	106.63	45.87	15.83
	Times Interest Earned (Times)		13.67	8.00	4.33	9.20	20.88
Leverage	Operating leverage		1.30	1.45	1.70	1.42	1.29
	Financial leverage		1.00	1.02	1.08	1.06	1.06

Reasons for changes in financial ratios in recent two years. (Analysis not necessary if the change does not reach 20%)

1. The increase in total assets in 2018 resulted in a decrease in debt ratio, and the decrease in interest expenses resulted in higher liquidity.
2. The increase in operating revenue in 2018 resulted in higher accounts receivable turnover, property, plant and equipment turnover, and total assets turnover compared to 2017; the increase in inventory at the end of 2018 resulted in lower inventory turnover and increased average inventory turnover days; the increase in cost of goods sold in 2018 resulted in higher accounts payable turnover.
3. Return on total equity decreased in 2018 due to the increase in average shareholders' equity. Furthermore, net margin in 2018 decreased compared to 2017 due to the profits from sale of Micron Technology shares being recognized in 2017.
4. Cash flow increased in 2018 compared to 2017 due to the increase in net cash inflow from operations; times interest earned increased in 2018 compared to 2017 due to the increase in net cash inflow from operations.

Note: The Financial Statements from 2013 to 2017 have been audited by KPMG.

(II) IFRS – Standalone

Item \ Year			Financial analysis for the most recent five years				
			2018	2017	2016	2015	2014
Capital structure	Debt ratio (%)		18.83	12.30	37.42	47.12	60.00
	Long-term Fund to Property, Plant and Equipment Ratio (%)		173.92	157.66	152.21	138.51	108.51
Liquidity	Current ratio (%)		192.16	422.69	73.58	49.38	42.38
	Quick ratio (%)		154.92	365.31	55.11	28.07	30.59
	Times interest earned (times)		7806.92	92.47	37.83	21.69	26.72
Operating performance	Accounts receivable turnover (times)		8.74	7.18	6.98	7.01	7.35
	Days sales outstanding		41.76	50.83	52.29	52.06	49.65
	Inventory turnover (times)		4.02	5.22	5.44	4.92	4.50
	Accounts payable turnover (times)		9.62	6.69	8.02	19.18	18.39
	Inventory turnover days		90.79	69.92	67.09	74.18	81.11
	Property, plant and equipment turnover (times)		0.92	0.70	0.69	0.85	0.94
	Total assets turnover (times)		0.47	0.37	0.34	0.41	0.49
Profitability	Return on total assets (%)		22.26	28.31	20.23	17.20	29.96
	Return on total equity (%)		26.51	37.03	33.81	35.58	109.77
	Pre-tax income to paid-in capital ratio (%)		133.91	139.94	93.48	72.57	123.83
	Net margin (%)		46.70	74.47	57.82	39.74	58.12
	Earnings per share(NT$)	Before adjustment	12.8	14.36	8.67	7.07	11.77
		After adjustment	—	—	—	—	—
Cash flow	Current Ratio (%)		128.77	152.27	48.17	53.03	55.52
	Quick Ratio (%)		111.84	112.25	109.19	68.65	23.60
	Times Interest Earned (Times)		13.62	7.80	4.40	9.09	20.79
Leverage	Operating leverage		1.30	1.45	1.70	1.43	1.30
	Financial leverage		1.00	1.02	1.08	1.06	1.06

Reasons for changes in financial ratios in recent two years. (Analysis not necessary if the change does not reach 20%)

1. Investments by subsidiaries accounted for using the equity method were recognized in 2018 and resulted in an increase in current liabilities, which caused the debt ratio to increase and current ratio and quick ratio to decrease.
2. The increase in operating revenue in 2018 resulted in higher accounts receivable turnover, property, plant and equipment turnover, and total assets turnover compared to 2017; the increase in inventory at the end of 2018 resulted in lower inventory turnover and increased average inventory turnover days; the increase in cost of goods sold in 2018 resulted in higher accounts payable turnover.
3. Return on total equity decreased in 2018 due to the increase in average shareholders' equity. Furthermore, net margin in 2018 decreased compared to 2017 due to the profits from sale of Micron Technology shares being recognized in 2017.
4. Current liabilities increased and cash flow ratio decreased in 2018 compared to 2017 due to investments of subsidiaries accounted for using the equity method; times interest earned increased in 2018 compared to 2017 due to the increase in net cash inflow from operations.

Note: The Financial Statements from the past five years have been audited by KPMG.

Formulas for financial analysis are as follows:

1. Capital structure
   (1) Debt ratio ＝ Total liabilities / Total assets
   (2) Long-term fund to property, plant and equipment ratio ＝(Total equity + non-current liabilities) / Net property, plant and equipment
2. Liquidity
   (1) Current ratio ＝Current assets / Current liabilities
   (2) Quick ratio ＝ (Current assets – inventory – prepaid expenses) / Current liabilities
   (3) Times interest earned ＝ Net Income before tax and interest expenses / Interest expenses
3. Operating performance
   (1) Account receivable turnover (including accounts receivable and notes receivable) ＝ Net sales / Average account receivable (including account receivable and notes receivable) balance
   (2) Days sales outstanding ＝ 365 / Receivable turnover
   (3) Inventory turnover ＝ Cost of goods sold / Average inventory
   (4) payable turnover (including accounts payable and notes payable) ＝ Cost of goods sold /Average account payable (including account payable and notes payable) balance
   (5) Inventory turnover days ＝ 365 / Inventory turnover
   (6) Property, plant and equipment turnover ＝ Net sales / Average net property, plant and equipment
   (7) Total assets turnover ＝Net sales / Average total assets
4. Profitability
   (1) Return on total assets ＝ [Net income after tax + interest expense x (1-interest rate)] / Average total assets
   (2) Return on total equity ＝ Net income after tax / Average shareholders' equity
   (3) Net margin = Net income / Net sales
   (4) Earnings per share = (Net income - preferred stock dividend) / Weighted average number of shares outstanding
5. Cash flow
   (1) Cash flow ratio ＝ Net cash flow provided by operating activities / Current liabilities
   (2) Cash flow adequacy ratio ＝ Five-year sum of cash from operations / Five-year sum of capital expenditures, inventory additions, and cash dividend
   (3) Cash flow reinvestment ratio = (Cash provided by operating activities - cash dividends) / (Gross property, plant and equipment + long-term investments + other noncurrent assets + working capital)
6. Leverage
   (1) Operating leverage ＝ (Operating revenues – variable cost and expense) / Operating Income
   (2) Financial leverage ＝ Operating income / (Operating income – interest expenses)

(III) Financial Analysis – by ROC GAAP

NTC has used the International Financial Reporting Standard(s) since 2013. Please refer to the information in the above table for 2014-2018 financial analysis data.

III. Audit Committee's Review Report for the Most Recent Year:

Audit Committee's Review Report

The Board of Directors has prepared the Company's 2018 Business Report, Financial Statements (including consolidated and Stand-alone statements), and Proposal for Profits Distribution. The CPA firm of KPMG has audited the Financial Statements and issued an audit report relating to Financial Statements. The Business Report, Financial Statements, and Proposal for Profits Distribution have been reviewed and determined to be correct and accurate by the Audit Committee members of Nanya Technology Corporation. According to the Article of the Securities and Exchange Act and Article of the Company Law, we hereby submit this report.

Nanya Technology Corporation

Chairman of the Audit Committee: Ching-Chyi Lai

February 27, 2019

IV. Consolidated Financial Statements for the Past Year

Please refer to Appendix I of the Annual Report.

V. Stand-alone Financial Statements for the Most Recent Year Reviewed and Certified by Independent Auditors

Please refer to Appendix II of the Annual Report.

VI. The Company should disclose the financial impact to the Company if the Company and its affiliated companies have incurred any financial or cash flow difficulties in the most recent year and as of the date of this Annual Report: None

G. Financial Status, Operating Results and Risk Management

I. Financial Status

Unit: NT$ thousands

Item \ Year	2018	2017	Difference	
			Amount	%
Current assets	82,386,911	62,406,327	19,980,584	32.0
Non-current assets	100,198,902	88,372,975	11,825,927	13.4
Total Assets	**182,585,813**	**150,779,302**	**31,806,511**	**21.1**
Current liabilities	16,763,342	14,703,104	2,060,238	14.0
Non-current liabilities	915,173	3,961,010	(3,045,837)	(76.9)
Total Liabilities	**17,678,515**	**18,664,114**	**(985,599)**	**(5.3)**
Common stock	31,038,877	29,863,340	1,175,537	3.9
Capital surplus	33,557,005	27,277,191	6,279,814	23.0
Retained earnings	103,367,925	74,898,497	28,469,428	38.0
Other equity	(273,834)	(39,163)	(234,671)	599.2
Treasury stock	(2,782,675)	-	(2,782,675)	-
Total equity attributable to owners of the parent	164,907,298	131,999,865	32,907,433	24.9
Non-controlling interest	-	115,323	(115,323)	-
Total equity	**164,907,298**	**132,115,188**	**32,792,110**	**24.8**

Explanation for Significant Changes:

1. Current assets: Mainly due to cash inflow from operations in the current period.
2. Non-current liabilities: Mainly due to the conversion of all overseas convertible bonds.
3. Capital surplus: Mainly due to the premium from conversion of overseas convertible bonds to common shares and exercised ESOP.
4. Retained earnings: Mainly due to retained earnings from increased profits in the current period.
5. Other interests: Mainly due to exchange differences on translation of foreign financial statements and net unrealized gains from financial assets of subsidiaries at fair value through other comprehensive income accounted for using the equity method.

II. Financial performance

(I) Consolidated Report – IFRSs

Unit: NT$ thousands

Item \ Year	2018	2017	Change (amount)	%
Operating revenues	84,721,804	54,918,224	29,803,580	54.3
Cost of goods sold	38,105,801	30,274,077	7,831,724	25.9
Gross profit	46,616,003	24,644,147	21,971,856	89.2
Operating expenses	7,260,533	5,852,847	1,407,686	24.1
Operating income	39,355,470	18,791,300	20,564,170	109.4
Non-operating income and expenses	2,228,867	23,039,231	(20,810,364)	(90.3)
Income before income tax	41,584,337	41,830,531	(246,194)	(0.6)
Minus: Income tax expense	2,223,487	1,535,907	687,580	44.8
Net income	39,360,850	40,294,624	(933,774)	(2.3)

Analysis for Significant Changes:

1. Operating revenues: Mainly due to the increase in average selling price and sales volume.
2. Cost of goods sold: Mainly due to the increase in product sales volume.
3. Gross profit: Mainly due to the increase in average selling price and sales volume, which resulted in an increase in gross profit.
4. Operating expenses: Mainly due to the increase in product development expenses.
5. Operating income: Mainly due to the increase in operating revenue and gross profit.
6. Non-operating income and expenses: Mainly due to profits from the sale of Micron shares recognized in the previous period.
7. Income tax expense: Mainly due to higher income tax expenses from retained earnings this period.

(II) Gross Profit Variance Analysis – Consolidated Report by IFRSs:

Unit: NT$ thousands

Item	Variances between 2017 and 2016	Effect of variances			
Gross profit	21,971,856	Sales variances	Cost variances	Product mix	Quantity variances
		10,917,111	3,846,397	2,080,046	5,128,302

1. Sales variances: The rising of average selling price had positive impact on sales variances.
2. Cost variances: The higher ratio of 20 nm products in the current period had a positive effect on unit cost.
3. Product mix: The higher ratio of higher margin products had positive effect on product portfolio.
4. Quantity variances: The increase of sales volume had positive impact on quantity variances.

III. Cash Flow

(I) Cash Flow Analysis for 2018

Unit: NT$ thousands

Cash balance, beginning (1)	Annual net cash flow from operating activities (2)	Net cash used in investing and financing activities (3)	Cash surplus (deficit) (1)+(2)-(3)	Remedy for insufficient cash	
				Investment plan	Financing plan
33,768,677	48,244,002	(24,628,673)	57,384,006	–	–

1. Operating activities: Net cash inflows from operations this year was NT$48.2 billion, and was mainly due to net income of NT$39.4 billion and depreciation of NT$12 billion.
2. Cash outflow from investing activities: Cash outflow from investing activities this year was approximately NT$12.5 billion, was mainly due to an increase of NT$20.4 billion in property, plant and equipment, an investment of NT$3 billion to acquire 19% shares of Formosa Advanced Technologies Co., Ltd., and cash inflow of NT$10.6 billion from the sale of Micron shares.
3. Cash outflow from financing activities: Cash outflow from financing activities this year was approximately NT$11.8 billion, and was mainly due to cash dividends of NT$10.9 billion.
4. Remedies for insufficient cash: None

Liquidity:

Item \ Year	December 31, 2018	December 31, 2017	Change (%)
Current Ratio (%)	287.8	154.3	86.5
Quick Ratio (%)	112.6	112.4	0.2
Times Interest Earned (Times)	13.7	8.0	70.9

Explanation for significant changes:

(1) Current Ratio: The current ratio increased in 2018 compared to 2017 due to the increase in cash inflow from operations.

(2) Time's interest earned: Times interest earned increased in 2018 compared to 2017 due to the increase in cash inflow from operations.

(II) Cash flow projection for next year:

Unit: NT$ thousands

Cash balance, beginning Balance	Annual net cash flow from operating activities	Annual cash outflow	Cash surplus (deficit)	Remedy for insufficient cash	
				Investment plan	Financing plan
57,384,006	20,205,947	(33,166,477)	44,423,476	—	—

Cash inflow from operating activities in the coming year is expected to be approximately NT$20.2 billion. Cash outflow is expected to be NT$33.2 billion, and will mainly be for the final payment for 20 nm equipment, R&D and general capital expenditures, cash dividends and treasury stock buyback; our cash balance will be approximately NT$44.4 billion.

IV. Major Capital Expenditures

Unit: NT$ thousands

Project	Sources of Funding	Total Funds Required (2018 and 2017)	Actual Capex AMT	
			2018	2017
Production and factory equipment and other capital expenditures.	Working capital	49,820,744	20,425,865	29,394,879

The abovementioned capital expenditures will increase our output to 73,000 WSPM.

V. Reinvestment Policy, Cause of Gain or Loss, Corrective Action, and Investment Plan for the Coming Year Plan

Unit: NT$ thousands; December 31, 2018

Description / Item	Investment	Policy	Cause of Gain or Loss	improvement plan	Other investment plan
NTC-USA	20,392	Selling of semiconductor products.	Gained NT$24,676 from investment	—	—
Nanya-Delaware	36,005	Designing of semiconductor products.	Gained NT$15,445 from investment	—	—
Nanya-HK	66,271	Selling of semiconductor products.	Gained NT$12,831 from investment	—	—
Nanya-Japan	20,161	Selling of semiconductor products.	Lost NT$6,593 from investment	Strengthen business development	—
Nanya-Europe	30,056	Import/Export Business	Gained NT$4,081 from investment	—	—
NTC-Shenzhen	30,272	Selling of semiconductor products.	Gained NT$7,013 from investment	—	—
Nanya Technology International, Ltd.	30,888,000	Investment business	Gained NT$3,823 from investment	—	—

Note 1: Piece Makers Tech Inc. disposed of all of its shares in February 2018.

Note 2: Liquidation of Pei-Jen Co., Ltd. was completed in December 2018.

VI. Risk Management

(I) Risk Associated with Interest Rates, Foreign Exchange and Inflation:

1.Interest rate: We do not have any interest bearing debt and our current assets exceed current liabilities. Our cash is mainly invested in short-term investments, future interest rate fluctuations should have no material impact on our profits & losses.

2.Foreign exchange: The functional currency of the Company is NTD. However, since DRAM products are mainly transacted in US dollars, over 90% of the company's revenues are in US dollars. Since over 50% of our capital expenditures each year is paid in USD or other foreign currencies, so we need to maintain an appropriate USD cash position. However, we also need to exchange USD to maintain daily operations and pay cash dividends and employee bonuses. At present, we dynamatically adjust our USD cash position each month based on our future USD-denominated asset and debt position, so as to lower the

effect of exchange rate fluctuations. In order to minimize the impact to the Company's profits and losses from exchange rate fluctuation, the Company can also buy/sell Foreign Exchange Forward for hedging purposes, if needed.

3.Inflation: According to the announcement by the Directorate-General of Budget, Accounting and Statistics, Executive Yuan, the annual growth rate of Consumer Price and Core Consumer Price in 2018 is 1.35% and 1.22%, respectively, the impact on our profitability was insignificant.

(II) Risks Associated with High-risk/high-leveraged Investment; Lending, Endorsements, and Guarantees for Other Parties; and Financial Derivative Transactions:

1. High-risk or high-leveraged investments: The Company did not engage in any high-risk or high-leveraged investments in 2018.
2. Lending to others: We did not lend funds to others in 2018. All lending operations are carried out in accordance with the Company's "The Procedure of Loans of Funds to Others".
3. Endorsements and guarantees: We did not provide any endorsements and guarantees in 2018. The transactions and procedures related to lending and endorsement are based on the Company's "The Procedure of Making Endorsements or Guarantees".
4. Financial derivative transactions: We engaged in financial derivative transactions to avoid market risks caused by exchange rate and interest rate fluctuations, and not for arbitrage or speculation. Transactions are executed in accordance with laws and regulations promulgated by the competent authority, IFRSs, "Handling Procedures to Engage in the Derivative Transaction of Products", and "Foreign Currency Transactions and Risk Management Regulations".

(III) Future Research & Development Plans and Expected R&D Spending:

To fulfill the needs from mobile customers, we also developed multi-chip –package solutions. To continuously enhance product performance including higher speed and lower power consumption, we will achieve that goal by deploying advanced 20nm technology to develop new generation products in order to meet specialty market requirements. R&D expenses in

2019 is estimated at approximately NT$5.3 billion, up 8% as compared with that in 2018.

(IV) Risks Associated with Changes in the Government Policies and Regulatory Environment:

NTC pays close attention to changes in domestic and international politics and economic situations, major policy formation, and regulation amendments. Professional training is provided to NTC employees as needed. The following summarizes major regulation changes related to our finances and operations from 2018 to February 28, 2019:

1. The Company Act was amended in Presidential Order Hua-Zong-Yi-Jing-Zi No. 10700083291 dated August 1, 2018:

   Shareholders who have held over 50% shares for at least 3 consecutive months may convene an extraordinary shareholders' meeting; Earnings may be distributed on a quarterly or semiannual basis in accordance with the Articles of Incorporation; Extempore motions of shareholders' meetings may not involve capital decrease and non-compete clauses of directors; Board meetings of private companies may be convened in writing with the approval of all directors; Data on directors, supervisors, managers, and shareholders with 10% or more shares shall be submitted on an annual basis. The most recent amendment aims to strengthen corporate governance and has no material effect on our operations. We will comply with relevant regulations.

2. IFRS 16 Leases was implemented in 2019, and the accountant holds the opinion that it will not have a material effect on our financial reports.

(V) Impact of recent technological and market changes on the Company's finance and business, and response measures:

1. Memory Development and Impact in China

   (1) The DRAM industry is currently in an oligarpoly state, but three major memory chip manufacturers have been newly established in China, which may undermine the balance between supply and demand in the future. Currently existing DRAM manufacturers do not cooperate with DRAM manufacturers in China. In the short-term, it is not easy for China’s manufacturers to develop their own technology. However, NTC still needs to pay attention to its development and adopt countermeasures to reduce operational risks.

(2) DRAM makers in China hired Taiwan's former senior semiconductor executives from Taiwan to lead factories and their technological development. Hence, we have also lost middle management and executives. NTC has strengthened its safety and security control measures to avoid the risk of technology outflows and formulate relevant contingency measures, strengthening employee communication and increasing employee retention by retention policies.

(3) NTC continue to research and develop new technologies and new product development, actively expanding the market with higher added value, increaseing its proportion of revenues, for example, automotive, industrial, Netcom, etc., to reduce operational risks and reduce the impact of China's DRAM mass production.

2. The chain reaction and impact of the U.S.-China trade war:

The U.S.-China trade war has an extensive and long-lasting impact on the industrial chain, which has slowed global economic growth and profit growth in related industries. Governments and enterprises alike have all been impacted. Therefore, mitigating the inevitable damage and limiting the scope of damages to the industrial chain is an important issue when facing the chain reaction and impact of the U.S.-China trade war.

Besides further strengthening our technical capabilities, we are also expanding our product portfolio and customers of mainstream products. Our supply chain management requires closely monitoring customers' inventory and demand, as well as changes in the DRAM applications market, in order to increase our revenue and survive this difficult time to face our next challenge.

3. Unstable base load electricity supply or shortage of alternative energy due to the no-nuclear power policy in Taiwan:

The government set the goal for a nuclear-free homeland by 2025, and proposed two measures to achieve this goal. One is to replace nuclear power with green energy, and the other is to replace coal with natural gas. These two measures have a profound effect on Taiwan. Since the DRAM industry is part of the semiconductor industry, it uses a considerable amount of electricity and has extremely high stability requirements. Therefore, we are not only concerned about an increase in electricity expenses, but also the stability of electricity supply. Hence, we will

continue to follow developments in domestic energy policy.

We considered purchasing green energy in coordination with the government's energy policy, and also completed ISO50001 certification at the end of 2018. Systematic energy management not only improves monitoring and effectively saves energy, but also aims to achieve more effective energy use. Planning and evaluation of alternative energy also need to be carried out to achieve higher competitiveness on a favorable operating cost structure.

(VI) Impact of corporate image change on risk management and response measures:

NTC “keep inquiring to the very root” and “rest only when perfection is achieved” and insist on such determination to face problems openly and solve problems with practical methods. Also, we constantly keep the idea of “work hard, rest only when perfection is achieved, devote ourselves to society, and sustainable management.”

(VII) Risks Associated with Mergers and Acquisitions: None

(VIII) Risks Associated with Capacity Expansion:

Please see VII. “Financial Status, Operating Results and Risk Management”: 4. Major Capital Expenditures. NTC will take the best operational strategy for capacity expansion plans or production adjustments depending on customer needs, market supply and demand and funding sources.

(IX) Risks Associated with Sales Concentration and Purchase Concentration:

1. Concentration of sales

Please refer to V. Operations overview (IV) Suppliers/Customers that Accounted for at Least 10% of Annual Procurement/Sales in the most recent two years. Only Kingston accounted for more than 10% of sales in 2018, and all other customers accounted for less than 10%. Hence, the risk of sales concentration is acceptable.

2. Concentration of purchase

Please refer to V. Operations overview (IV) Suppliers/Customers that Accounted for at Least 10% of Annual Procurement/Sales in the most recent two years. Formosa Sumco Technology Corporation was one of our main suppliers in 2018. We still have multiple sources and qualified suppliers to ensure the stability and quality of manufacturing materials. Therefore, the risk of purchase concentration risk is minimal.

(X) Potential Impact and Risks Associated with Sales of Significant Numbers of Shares by Nanya's Directors, Supervisors, and/or Major Shareholders Who Own 10% or More of Nanya's Total Outstanding Shares: None

(XI) Risks Associated with Change in Management: None

(XII) Risks Associated with Litigation:

1. In mid of 2010, Nanya Technology Corporation ("Nanya"), other manufacturers and individuals were alleged to international cartel in the industry for DRAM, which may have effected the Brazilian market. Nanya has engaged counsels to deal with the case to protect Nanya's interests.
2. In October, 2016, Lone Star Silicon Innovations accused Nanya Technology Corporation and its subsidiaries (collectively "Nanya") in U.S District Court of East Texas for patent infringement. The case was transferred to the U.S District Court of Northern District of California in July, 2017 and the Court adjudicated the dismissal of the case in January 2018. The Plaintiff is appealing against the dismissal. Federal Court and State Court, and Nanya has engaged counsels to properly handle it to ensure Nanya's rights.

(XIII) Other Material Risks:

1. Guidelines of internal material information
   (1) FPG emphasize diligent and humble as corporate theme. The company also set strict moral conduct for its employees to follow. Any employee who transmit business confidentiality to public, fraud for personal interest and spreading rumors are prohibited.
   (2) The Company has a "Personnel Management Rules" and informs the Employee that, without written permission, it shall not disclose any internal information to the public, nor shall it be used for personal or other business purposes.
   (3) Regarding information transparency and any material accident, there is a handbook specify the operation directions. All employees, except the spokesman, shall not express corporate policy, operating and business information to public to avoid insider trading.
2. Information Security Risks:
   (1) We have an Information Security Section responsible for planning, implementation, auditing, and improvement of information security management, and we established related management regulations and

handling guidelines. All of our applications, operating system, and network systems have layers of control and protection mechanisms to prevent disasters, data corruption, and data theft. These effectively control our corporate information system risks and maintain business continuity. To ensure our information security and establish a trustworthy environment for information access, our information security policy is as follows:

- Comply with regulatory requirements and raise information security awareness.
- Value risk management and protect data safety.
- Engage all employees in the pursuit of continuous improvement.

(2) We have planned and implemented robust information security measures as described below:

- We adopted the defense-in-depth architecture with sensitive data encryption, endpoint protection, and network gateway protection, which are supported by network access control, document output management, and e-mail protection mechanisms. We also installed metal detectors for controlled information security products, so as to prevent external cyberattacks and internal leaks.
- Door access control, system login identity authentication, password control, access right control, and periodic vulnerability scanning. We also installed anti-virus software, updated security patches, controlled USB access, and established a backup mechanism to strengthen endpoint protection.
- We installed an information security system to prevent computer viruses or malware from affecting information system services or accessing confidential data, and also prevent the theft of confidential data through social engineering.
- We provide employees with annual information security education, training, and testing to raise their awareness of information security risks.
- Each year we examine our information security measures and regulations, follow information security issues, and formulate response plans to ensure their appropriateness and effectiveness.
- In addition to the Company itself, we have expanded our

information security to the entire supply chain. Equipments must pass a security inspection when entering our factories before they may be used. We also signed an information security clause with vendors and their employees to prevent attacks through our supply chain.

VII. Other Important Matters: None

H. Other Special Notes

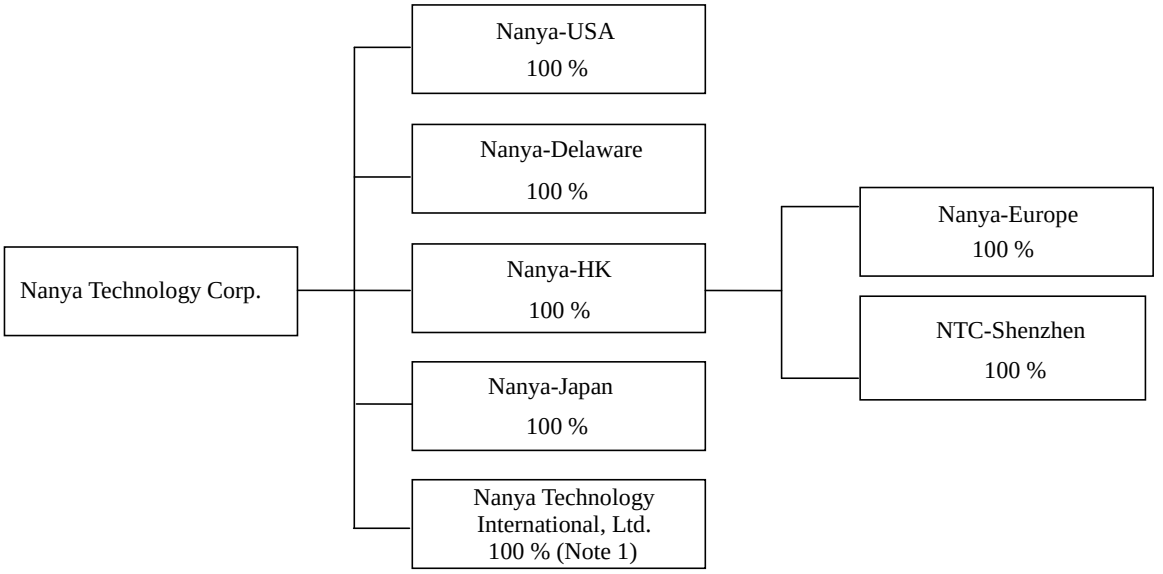
I. Profiles of affiliates and subsidiaries

(I) Consolidated Operation Report of Affiliates

1. Summary of NTC's Subsidiaries

(1) Subsidiary Chart:

December 31, 2018



Note 1: Nanya Technology International, Ltd. was established in November 2018.

Note 2: Liquidation of Pei-Jen Co., Ltd. was completed in December 2018.

(2) Subsidiary Information:

Unit: Thousands; December 31, 2018

Name of Subsidiary	Date of Incorporation	Address	Capital Stock	Business Activities
Nanya-USA	1997.04	1735 Technology Drive, Suite 400, San Jose, CA 95110	US$ 720	Selling of semiconductor products.
Nanya-Delaware	2008.10	20 Winter Sport Ln., Suite 105, Williston, VT 05495	US$ 1,100	Designing of semiconductor products.
Nanya-HK	2002.04	7th Floor, Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong	HKD 15,366	Selling of semiconductor products.
Nanya-Japan	2002.09	8F Moriden Building, 3-9-9 Mita, Minato-ku,Tokyo, 108-0073, Japan	JPY 70,000	Selling of semiconductor products.
Nanya-Europe	2002.09	Pempelforter Strasse 50, 40211 Duesseldorf, Germany	EUR 800	Selling of semiconductor products.
NTC-Shenzhen	2006.08	Area N,3rd Floor, Block B, Junxiangda Building , Zhongshanyuan Road ,Nanshan District ,Shenzhen	US$ 985	Selling of semiconductor products.
Nanya Technology International, Ltd. (Note 1)	2018.11	Vistra Corporate Services Centre, Wickhams Cay II,Road Town, Tortola,VG1110,British Virgin Islands	US$ 1,000,000	General investments

Note 1: Nanya Technology International, Ltd. was established in November 2018.
Note 2: Liquidation of Pei-Jen Co., Ltd. was completed in December 2018.

(3) Shareholders in Common of NTC and Its Subsidiary with Deemed Control and Subordination: None

(4) Businesses covered by the affiliated enterprises' overall operations

The subsidiary overall is engaged in research, development, design, manufacturing and sale of semiconductor products. NTC-USA, NTC-Japan, NTC-HK, NTC-Europe and NTC-Shenzhen those are selling semiconductor products on behalf of NTC. Nanya Technology International, Ltd. is engaged in general investments.

(5) Directors, Supervisors and Presidents of NTC's Subsidiaries

December 31, 2018

Name of Subsidiary	Title	Name or Representative	Shareholding	
			Shares (Amount of contribution)	Shareholding percentage
Nanya-USA	Chairman	Pei-Ing Lee	—	—
	Director	Rex Chuang	—	—
	Director	Rex Chen	—	—
	Director	Brian Donahue	—	—
	President	Brian Donahue	—	—
			Nanya Technology Corporation holds 2,400 shares	100%
Nanya-Delaware	Chairman	Pei-Ing Lee	—	—
	Director	Chi-Meng Su	—	—
	Director	Joseph Wu	—	—
	Director	Douglas Lewellen	—	—
	President	Douglas Lewellen	—	—
			Nanya Technology Corporation holds 1 shares	100%
Nanya-HK	Director	Pei-Ing Lee	—	—
	Director	Otto Chang	—	—
	Director	Rex Chen	—	—
	President	Pei-Ing Lee	—	—
			Nanya Technology Corporation holds 19,700 shares	100%
Nanya-Japan	Representative Director	Pei-Ing Lee	—	—
	Representative Director	Chin-Lu Pan	—	—
	Director	Otto Chang	—	—
	Director	Joseph Wu	—	—
	Director	Rex Chen	—	—
	Supervisor	Hung-Chi Kuo	—	—
	President	Chin-Lu Pan	—	—
			Nanya Technology Corporation holds 1,000 shares	100%

Name of Subsidiary	Title	Name or Representative	Shareholding	
			Shares (Amount of contribution)	Shareholding percentage
Nanya-Europe	Managing Director	Jean-Louis Freart	- (Invested EUR800,000 through Nanya-HK)	- 100%
NTC-Shenzhen	Chairman	Pei-Ing Lee	—	—
	Director	Otto Chang	—	—
	Director	Rex Chen	—	—
	Supervisor	Hung-Chi Kuo	—	—
	President	Johnny Wang	— (Invested US$985,000 through Nanya-HK)	— 100%
Nanya Technology International, Ltd. (Note 1)	Director	Chia Chau, Wu	—	—
	Director	Pei-Ing Lee	— Nanya Technology Corporation holds 1,000 shares	— 100%

Note 1: Nanya Technology International, Ltd. was established in November 2018.
Note 2: Liquidation of Pei-Jen Co., Ltd. was completed in December 2018.

(6) Operational Highlights of NTC's Subsidiaries:

Unit: NT$ thousands; December 31, 2018

Name of Subsidiary	Capital	Total assets	Total liabilities	Net worth	Operating revenues	Operating income	Profit or loss for the current period (After-tax)	Earnings per share (NT$) (NT$; After-tax)
Nanya-USA	20,392	2,654,957	2,506,403	148,554	10,079,400	33,646	24,676	10,281
Nanya-Delaware	36,005	164,808	15,269	149,539	408,212	19,439	15,445	15,445,124
Nanya-HK	66,271	689,731	637,215	52,516	4,166,860	7,436	12,831	651
Nanya-Japan	20,161	882,323	708,537	173,786	4,452,736	44,685	(6,593)	(6,593)
Nanya-Europe	30,065	660,996	598,165	62,831	3,920,511	3,078	4,081	-
NTC-Shenzhen	30,272	24,080	9,965	14,115	51,031	6,782	7,013	-
Nanya Technology International, Ltd. (Note 1)	30,888,000	30,736,990	98	30,736,892	-	(97)	3,823	-

Note 1: Nanya Technology International, Ltd. was established in November 2018.

Note 2: Liquidation of Pei-Jen Co., Ltd. was completed in December 2018.

Note: Daily exchange rate used in the report:

(1)Total assets, Total liabilities 1USD = NT$30.733 ; Operating revenue, Operating income, Net income 1USD = NT$30.1886.

(2)Total assets, Total liabilities 1JPY = NT$0.2772 ; Operating revenue, Operating income, Net income 1JPY = NT$0.2727.

(3)Total assets, Total liabilities 1EUR = NT$35.167 ; Operating revenue, Operating income, Net income 1EUR = NT$35.5438.

(4)Total assets, Total liabilities 1HKD = NT$3.9299 ; Operating revenue, Operating income, Net income 1HKD = NT$3.8475.

(5)Total assets, Total liabilities 1CNY = NT$4.4852 ; Operating revenue, Operating income, Net income 1CNY = NT$4.5581.

(II) Consolidated Financial Statements of Affiliated Enterprises

1. Representation Letter

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 the International Accounting 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.

It is hereby declared

Company name: Nanya Technology Corportion

Chairman: Chia Chau, Wu

Date: February 27, 2019

2. Consolidated Financial Statements of Affiliated Enterprises: same as NTC's Financial Statements.

(III) Consolidated Business Reports of Affiliated Enterprises: None

II. Private Placement Securities in 2017 and as of the Date of this Annual Report: None

III. Holding or disposal of stocks of the Company by subsidiaries in the past year and up to the date of report: None

IV. Other supplemental information: None

V. Any Events in 2017 and as of the Date of this Annual Report that Had Significant Impacts on Shareholders' Right or Share Prices as Stated in Item 3 Paragraph 2 of Article36 of Securities and Exchange Law of Taiwan: None

Appendix A

NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES 2018 CONSOLIDATED FINANCIAL STATEMENTS with Independent Accountants' Review Report

Stock Code:2408

(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

Address: No.98, Nanlin Rd., Dake Vil., Taishan Dist., New Taipei City, Taiwan (R.O.C.)
Telephone: (02)2904-5858

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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

安侯建業聯合會計師事務所
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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)

	Assets	December 31, 2018 Amount	%	December 31, 2017 Amount	%
	Current assets:				
1100	Cash and cash equivalents (Note 6(a))	$ 57,384,006	31	33,768,677	21
1170	Notes and accounts receivable, net (Notes 6(c)(r))	9,763,741	5	8,525,608	6
1200	Other receivables (Notes 6(d)(i))	1,313,111	1	11,601,416	8
1310	Inventories (Note 6(e))	12,167,737	7	6,888,530	5
1410	Prepayments	1,758,316	1	1,622,096	1
	Total current assets	82,386,911	45	62,406,327	41
	Non-current assets:				
1550	Investments accounted for using equity method (Notes 6(f) and 7)	3,006,603	2	-	-
1600	Property, plant and equipment (Notes 6(h) and 7)	95,358,992	52	86,241,880	57
1780	Intangible assets	45,881	-	136,550	-
1840	Deferred tax assets (Note 6(n))	867,311	-	922,559	1
1935	Long-term lease payments receivable (Note 6(i))	875,900	1	1,043,501	1
1990	Other non-current assets (Note 8)	44,215	-	28,485	-
	Total non-current assets	100,198,902	55	88,372,975	59
	Total assets	$ 182,585,813	100	150,779,302	100

	Liabilities and Equity	December 31, 2018 Amount	%	December 31, 2017 Amount	%
	Current liabilities:				
2120	Current financial liabilities at fair value through profit or loss (Notes 6(b)(k))	$ -	-	2,238,441	1
2170	Accounts payable	4,247,638	3	3,072,987	2
2180	Accounts payable to related parties (Note 7)	332,064	-	299,746	-
2200	Other payables	8,786,790	5	6,297,730	4
2220	Other payables to related parties (Note 7)	938,944	1	1,065,854	1
2230	Current tax liabilities	2,456,338	1	1,726,392	1
2399	Other current liabilities	1,568	-	1,954	-
	Total current liabilities	16,763,342	10	14,703,104	9
	Non-Current liabilities:				
2530	Bonds payable (Note 6(k))	-	-	3,286,711	3
2570	Deferred tax liabilities (Note 6(n))	625	-	63,699	-
2640	Net defined benefit liability, non-current (Note 6(m))	537,303	-	525,797	-
2670	Other non-current liabilities	377,245	-	84,803	-
	Total non-current liabilities	915,173	-	3,961,010	3
	Total liabilities	17,678,515	10	18,664,114	12
	Equity (Note 6(o)):				
3110	Ordinary share	31,032,389	17	29,639,382	20
3130	Certificate of entitlement to new shares from convertible bond	-	-	223,958	-
3140	Advance receipts for share capital	6,488	-	-	-
3200	Capital surplus	33,557,005	18	27,277,191	18
3310	Legal reserve	9,192,249	5	5,164,057	3
3320	Special reserve	39,163	-	-	-
3350	Unappropriated retained earnings	94,136,513	52	69,734,440	47
3400	Other equity interest	(273,834)	-	(39,163)	-
3500	Treasury shares	(2,782,675)	(2)	-	-
	Total equity attributable to owners of parent	164,907,298	90	131,999,865	88
36xx	Non-controlling interests	-	-	115,323	-
	Total equity	164,907,298	90	132,115,188	88
	Total liabilities and equity	$ 182,585,813	100	150,779,302	100

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 Comprehensive Income

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars, Except Earnings Per Share)

		2018		2017	
		Amount	%	Amount	%
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)**	38,105,801	45	30,274,077	55
	Gross profit from operations	46,616,003	55	24,644,147	45
	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	4,887,311	6	3,673,056	7
	Total operating expenses	7,260,533	9	5,852,847	11
	Net operating income	39,355,470	46	18,791,300	34
	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	51,700	-	-	-
	Total non-operating income and expenses	2,228,867	3	23,039,231	42
7900	**Profit before tax**	41,584,337	49	41,830,531	76
7950	**Tax expense (Note 6(n))**	2,223,487	3	1,535,907	3
	Profit	39,360,850	46	40,294,624	73
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	6,190	-	14,203	-
	Components of other comprehensive income that will not be reclassified to profit or loss	(107,007)	-	(69,342)	-
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	-	-	1,602,346	3
	Components of other comprehensive income that will be reclassified to profit or loss	(140,573)	-	(7,828,264)	(14)
8300	**Other comprehensive income, net**	(247,580)	-	(7,897,606)	(14)
8500	**Comprehensive income**	$ 39,113,270	46	32,397,018	59
	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	(775)	-	12,697	
		$ 39,360,850	46	40,294,624	73
	Comprehensive income attributable to:				
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	(775)	-	12,697	-
		$ 39,113,270	46	32,397,018	59
	Earnings per share (Note 6(q))				
9750	**Basic earnings per share**	$ 12.80		14.36	
9850	**Diluted earnings per share**	$ 12.38		13.92	

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 Changes in Equity

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent														
	Share capital				Retained earnings			Other equity interest							
	Ordinary shares	Certificate of entitlement to new shares from convertible bond	Advance receipts for share capital	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	Unrealized gains (losses) on available-for-sale financial assets	Total other equity interest	Treasury shares	Total equity attributable to owners of parent	Non-controlling interests	Total equity
Balance at January 1, 2017	$ 27,485,658	-	-	11,523,007	2,791,929	4,570	36,296,086	(16,846)	-	7,805,947	7,789,101	(347,533)	85,542,818	102,329	85,645,147
Net profit for the year ended December 31, 2017	-	-	-	-	-	-	40,281,927	-	-	-	-	-	40,281,927	12,697	40,294,624
Other comprehensive (loss) income for the year ended December 31, 2017	-	-	-	-	-	-	(69,342)	(22,317)	-	(7,805,947)	(7,828,264)	-	(7,897,606)	-	(7,897,606)
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	-	-	40,212,585	(22,317)	-	(7,805,947)	(7,828,264)	-	32,384,321	12,697	32,397,018
Appropriation and distribution of retained earnings:															
Legal reserve appropriated	-	-	-	-	2,372,128	-	(2,372,128)	-	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	-	-	(4,122,848)	-	-	-	-	-	(4,122,848)	-	(4,122,848)
Reversal of special reserve	-	-	-	-	-	(4,570)	4,570	-	-	-	-	-	-	-	-
Other changes in capital surplus:															
Adjustments of capital surplus for company's cash dividends received by subsidiaries	-	-	-	1,031	-	-	-	-	-	-	-	-	1,031	-	1,031
Recognized compensation costs on employee stock options	-	-	-	459,573	-	-	-	-	-	-	-	-	459,573	-	459,573
Conversion of convertible bonds	2,153,724	223,958	-	15,297,911	-	-	-	-	-	-	-	-	17,675,593	-	17,675,593
Disposal of company's share by subsidiaries recognized as treasury share transactions	-	-	-	(4,331)	-	-	(283,808)	-	-	-	-	347,533	59,394	-	59,394
Changes in ownership interests in subsidiaries	-	-	-	-	-	-	(17)	-	-	-	-	-	(17)	17	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	280	280
Balance at December 31, 2017	29,639,382	223,958	-	27,277,191	5,164,057	-	69,734,440	(39,163)	-	-	(39,163)	-	131,999,865	115,323	132,115,188
Net profit (loss) for the year ended December 31, 2018	-	-	-	-	-	-	39,361,625	-	-	-	-	-	39,361,625	(775)	39,360,850
Other comprehensive (loss) income for the year ended December 31, 2018	-	-	-	-	-	-	(12,909)	(140,573)	(94,098)	-	(234,671)	-	(247,580)	-	(247,580)
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	-	-	-	39,348,716	(140,573)	(94,098)	-	(234,671)	-	39,114,045	(775)	39,113,270
Appropriation and distribution of retained earnings:															
Legal reserve appropriated	-	-	-	-	4,028,192	-	(4,028,192)	-	-	-	-	-	-	-	-
Special reserve appropriated	-	-	-	-	-	39,163	(39,163)	-	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	-	-	(10,879,288)	-	-	-	-	-	(10,879,288)	-	(10,879,288)
Other changes in capital surplus:															
Changes in equity of associates accounted for using equity method	-	-	-	5	-	-	-	-	-	-	-	-	5	-	5
Recognized compensation costs on employee stock options	-	-	-	717,656	-	-	-	-	-	-	-	-	717,656	-	717,656
Conversion of convertible bonds	732,839	-	-	4,504,323	-	-	-	-	-	-	-	-	5,237,162	-	5,237,162
Conversion of certificates of bonds to share	223,958	(223,958)	-	-	-	-	-	-	-	-	-	-	-	-	-
Repurchase of treasury share	-	-	-	-	-	-	-	-	-	-	-	(2,782,675)	(2,782,675)	-	(2,782,675)
Excercise of employee share options	436,210	-	6,488	1,057,830	-	-	-	-	-	-	-	-	1,500,528	-	1,500,528
Disposal of subsidiaries accounted for using equity method	-	-	-	-	-	-	-	-	-	-	-	-	-	(114,548)	(114,548)
Balance at December 31, 2018	**$ 31,032,389**	**-**	**6,488**	**33,557,005**	**9,192,249**	**39,163**	**94,136,513**	**(179,736)**	**(94,098)**	**-**	**(273,834)**	**(2,782,675)**	**164,907,298**	**-**	**164,907,298**

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
Cash flows from (used in) operating activities:		
Profit before tax	$ 41,584,337	41,830,531
Adjustments:		
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)
Total adjustments to reconcile profit (loss)	11,955,395	(14,959,109)
Changes in operating assets and liabilities:		
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
Total changes in operating assets and liabilities	(4,590,550)	(2,164,387)
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)
Net cash flows from operating activities	48,244,002	22,691,854
Cash flows from (used in) investing activities:		
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
Net cash flows (used in) from investing activities	(12,513,287)	26,418,667
Cash flows from (used in) financing activities:		
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
Net cash flows used in financing activities	(11,847,461)	(24,241,978)
Effect of exchange rate changes on cash and cash equivalents	(267,925)	(201,498)
Net increase in cash and cash equivalents	23,615,329	24,667,045
Cash and cash equivalents at beginning of period	33,768,677	9,101,632
Cash and cash equivalents at end of period	$ 57,384,006	33,768,677

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

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.

New, Revised or Amended Standards and Interpretations	Effective date per IASB
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

(Continued)

NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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.

NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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.

NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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
Financial Assets				
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.

(Continued)

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.

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:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
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).

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-subsidiary 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-subsidiary 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.

(Continued)

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 December 31, 2018	Shareholding December 31, 2017	Note
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. Shenzen	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 to 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 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.

(Continued)

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 of 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 planed 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.

(Continued)

(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.

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.

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.

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.

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.

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.

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.

(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 15years.

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.

(Continued)

(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.

(l) 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.

(Continued)

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.

(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.

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 earrings 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.

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.

(Continued)

(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 Issures, 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

	December 31, 2018	December 31, 2017
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
	$ 57,384,006	33,768,677

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

(Continued)

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(b) Financial liabilities at fair value through profit or loss

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

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:

	December 31, 2017			
	Contract Amount (in thousand)		Currency	Maturity dates
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

	December 31, 2018	December 31, 2017
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)
	$ 9,763,741	8,525,608

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

Due days	Notes and accounts receivables gross carrying amount	Weighted average loss rate	Loss allowance provision
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
	$ 9,773,039		9,298

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:

	December 31, 2017
1 to 30 days past due	$ 49,884

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

	December 31, 2018	December 31, 2017 Collectively assessed impairment
Balance on January 1, per IAS 39	$ 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)
Balance on December 31	$ 9,298	8,859

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

(d) Other receivables

	December 31, 2018	December 31, 2017
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
	$ 1,313,111	11,601,416

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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

	December 31, 2018	December 31, 2017
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
	$ 12,167,737	6,888,530

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:

	December 31, 2018
Associates	$ 3,006,603

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

Name of Associates	Nature of Relationship to the Group	Registration Country	Percentage of ownership December 31, 2018
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:

	December 31, 2018
Formosa Advanced Technologies Co., Ltd.	$ 14,062,667

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The aggregated financial information of the major associate was as follows:

The financial information of FATC was as follows:

	December 31, 2018
Current assets	$ 6,792,443
Non-current assets	5,882,131
Current liabilities	(1,231,815)
Non-current liabilities	(86,280)
Net asset	$ 11,356,479
Net asset contributed to FATC	$ 11,356,479

	For the year ended December 31, 2018
Operating revenue	$ 8,785,525
Profit	1,420,293
Other comprehensive income	(138,670)
Total comprehensive income	$ 1,281,623
Comprehensive income contributed to FATC	$ 1,281,623

	For the year ended December 31, 2018
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	5
Share of net assets of major associate at December 31	2,157,732
Add:Goodwill	887,684
Less:Unrealized profits on upsteam sales net assets of the associates	(38,813)
Total carrying amount of the major associate	$ 3,006,603

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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(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:

	February 26, 2018
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	**$ 246,615**

(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 cach 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
Cost:						
Balance as of January 1, 2018	$ 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
Balance as of December 31, 2018	**$ 1,013,924**	**7,740,635**	**180,746,435**	**1,132,778**	**13,886,443**	**204,520,215**
Balance as of January 1, 2017	$ 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)
Balance as of December 31, 2017	**$ 1,013,924**	**7,502,631**	**172,719,912**	**1,133,770**	**1,778,293**	**184,148,530**

(Continued)

NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES
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	Land	Building	Machinery and equipment	Other equipment	Under construction	Total
Accumulated depreciation / impairment:						
Balance as of January 1, 2018	$ -	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
Balance as of December 31, 2018	$ -	1,978,349	106,196,034	986,840	-	109,161,223
Balance as of January 1, 2017	$ -	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)
Balance as of December 31, 2017	$ -	1,676,927	95,179,932	1,049,791	-	97,906,650
Carrying amounts:						
Balance as of December 31, 2018	$ 1,013,924	5,762,286	74,550,401	145,938	13,886,443	95,358,992
Balance as of December 31, 2017	$ 1,013,924	5,825,704	77,539,980	83,979	1,778,293	86,241,880

(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

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

NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES
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(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	$ 1,321,651	278,150	1,043,501	1,750,980	397,727	1,353,253
Current			$ 167,601			309,752
Non-current			875,900			1,043,501
			$ 1,043,501			1,353,253

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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

	December 31, 2018	December 31, 2017
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	(14,267,000)	(11,407,906)
Balance at end of period	$ -	3,286,711

	December 31, 2018	December 31, 2017
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)	$ -	1,856,146

	For the years ended December 31,	
	2018	2017
Embedded derivatives-call and put options and conversion rights re-measured at fair value through loss (included other gain and losses)	$ 140,266	7,598,748

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NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Item	The first unsecured overseas convertible bond
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	(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). (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. (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.
9.Call option of issuer	(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. (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. (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.

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:

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

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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

	For the years ended December 31,	
	2018	2017
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,	$ 1,025,794	984,774

3) Movements in fair value of defined benefit plan assets

	For the years ended December 31,	
	2018	2017
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,	$ 488,491	458,977

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4) Expenses recognized in profit or loss

	For the years ended December 31,	
	2018	2017
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	(5,822)	(5,660)
	$ 11,853	11,233
Cost of goods sold	$ 7,799	7,759
Operating expenses	4,054	3,474
	$ 11,853	11,233

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

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

6) Actuarial assumptions

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

	December 31, 2018	December 31, 2017
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)

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:

	Effect of defined benefit obligations	
	Increase Amount	Decrease Amount
December 31, 2018		
Discount rate (change 0.25%)	$ 41,904	(39,885)
Future salaries (change1%)	178,420	(149,450)
December 31, 2017		
Discount rate (change 0.25%)	43,318	(41,134)
Future salaries (change1%)	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.

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(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:

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

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

	For the years ended December 31,	
	2018	2017
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	2,571	-
	$ 6,190	14,203
Items that may be reclassified subsequently to profit and loss:		
Unrealized (losses) gains on available-for-sale financial assets	$ -	1,602,346

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:

	For the years ended December 31,	
	2018	2017
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	(309)	(46)
Total	$ 2,223,487	1,535,907

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NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Deferred tax assets and liabilities

1) Unrecognized deferred income tax assets

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

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:

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

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:

Year	Unused loss carry forward	Expiry year
2017	$ 1,302	2022

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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：

	Operating loss carry forwards	Others	Total
Balance as of January 1, 2018	$ 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
Balance as of December 31, 2018	$ -	867,311	867,311
Balance as of January 1, 2017	$ 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)
Balance as of December 31, 2017	$ 297,195	625,364	922,559

Deferred tax liabilities：

	Unrealized gains (losses) on available-for-sale financial assets	Unrealized foreign exchange gain	Others	Total
Balance as of January 1, 2018	$ -	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
Balance as of December 31, 2018	$ -	-	625	625
Balance as of January 1, 2017	$ 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)
Balance as of December 31, 2017	$ -	63,132	567	63,699

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

(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)

	Ordinary Shares	
	2018	2017
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	43,621	-
Balance as of December 31,	**3,103,239**	**2,963,938**

(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.

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(ii) Capital surplus

	December 31, 2018	December 31, 2017
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	-
	$ 33,557,005	27,277,191

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.

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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) Earrings 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:

	For the year ended December 31, 2017	
	Dividends per share	Amount
Dividends attributable to ordinary shareholders:		
Cash dividends	$ 3.51	10,879,288

	For the year ended December 31, 2016	
	Dividends per share	Amount
Dividends attributable to ordinary shareholders:		
Cash dividends	$ 1.50	4,122,848

(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					
	Transfering 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

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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)

	Exchange differences on translation of foreign financial statements	Unrealized losses from financial assets measured at fair value through other comprehensive income	Total
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	$ (179,736)	(94,098)	(273,834)

	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on available-for-sale financial assets	Total
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	$ (39,163)	-	(39,163)

(Continued)

NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES
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(p) Share-based payment

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

	The 7th batch of Employee Stock Option Plan	The 8th batch of Employee Stock Option Plan	The 9th batch of Employee Stock Option Plan
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:

	The 7th batch of Employee Stock Option Plan	The 8th batch of Employee Stock Option Plan	The 9th batch of Employee Stock Option Plan	2012 Employee Stock Option Plan of Piece Makers
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

(Continued)

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:

	For the years ended December 31,			
	2018		2017	
	Weighted-average exercise (price TWD)	Number of options (Units)	Weighted-average exercise (price TWD)	Number of options (Units)
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	**109,382**	35.34	**155,374**
Options exercisable at December 31,	35.50	**62,992**	36.90	**61,060**

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

	December 31, 2018	December 31, 2017
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):

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

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

	December 31, 2017
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

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

(q) Earnings per share

	For the years ended December 31,	
	2018	2017
Basic earnings per share:		
Net profit attributable to the Company	$ 39,361,625	40,281,927
Weighted-average number of ordinary shares outstanding (basic)	3,074,181	2,806,025
Basic earnings per share (dollar)	$ 12.80	14.36
Diluted earnings per share:		
Net profit attributable to the Company (basic)	$ 39,361,625	40,281,914
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)	$ 12.38	13.92

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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(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	259,624	82,711	300,171	1,715,251	2,357,757
	$ 4,452,736	10,079,400	65,918,972	4,270,696	84,721,804
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
	$ 4,452,736	10,079,400	65,918,972	4,270,696	84,721,804

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	(9,298)	(8,859)
Total	$ 9,763,741	8,525,608

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	147,065
	$ 54,918,224

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
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(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

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

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(ii) Other gains and losses

	For the years ended December 31,	
	2018	2017
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
	$ 1,152,527	23,105,821

(iii) Finance costs

	For the years ended December 31,	
	2018	2017
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)
	$ 5,744	459,661

(v) Reclassification adjustment of other comprehensive income

	For the year ended December 31, 2017
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	$ (7,805,947)

(Continued)

NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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:

	Carrying amount	Contractual cash flow	Within 6 months	6-12months	1-2years	2-5years	Over 5 years
December 31, 2018							
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)	9,718,109	9,718,109	9,718,109	-	-	-	-
	$ 14,305,436	14,305,857	14,298,022	7,835	-	-	-

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	Carrying amount	Contractual cash flow	Within 6 months	6-12months	1-2years	2-5years	Over 5 years
December 31, 2017							
Derivative financial liabilities							
Derivative instruments not used for hedging	$ 382,295	382,295	382,295	-	-	-	-
Embedded derivative-convertible bonds	1,856,146	-	-	-	-	-	-
subtotal	2,238,441	382,295	382,295	-	-	-	-
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	14,023,028	7,140,742	3,372,982	8,665	-	3,759,096	-
Total	$ 16,261,469	7,523,037	3,755,277	8,665	-	3,759,096	-

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:

	December 31, 2018			December 31, 2017		
	Foreign currency (in thousands)	Exchange rate (dollars)	New Taiwan Dollars	Foreign currency (in thousands)	Exchange rate (dollars)	New Taiwan Dollars
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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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 :

	December 31, 2018				
		Fair Value			
	Book Value	Level 1	Level 2	Level 3	Total
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	$ 69,336,758	-	-	-	-
Financial liabilities measured at amortized cost :					
Accounts payable (including related parties)	$ 4,579,702	-	-	-	-
Other payables (including related parties)	9,725,734	-	-	-	-
Total	$ 14,305,436	-	-	-	-

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	December 31, 2017				
		Fair Value			
	Book Value	Level 1	Level 2	Level 3	Total
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)	1,353,253	-	-	-	-
Total	$ 54,939,202	-	-	-	-
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	3,286,711	-	3,405,337	-	3,405,337
Subtotal	14,023,028	-	3,405,337	-	3,405,337
Total	$ 16,261,469	-	3,405,337	-	3,405,337

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 dervative 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)

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.

(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 investmentss.

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.

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.

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(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:

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

(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:

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

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.

Name of related party	Relationship with the Group
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

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NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES
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Name of related party	Relationship with the Group
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
Formsa 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

	Sales	
	For the years ended December 31,	
Relationship	2018	2017
Other related parties	$ -	6,023

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.

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(ii) Purchase from related parties

	Purchases		Accounts payable to related parties	
	For the years ended December 31,			
Relationship	2018	2017	December 31, 2018	December 31, 2017
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	172,238	67,162	4,370	4,862
	$ 1,984,897	1,495,448	332,064	299,746

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

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

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

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(iv) Financing from related parties

Relationship	Finance costs For the years ended December 31, 2018	2017
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
	$ 419	92,923

Relationship	Other payables to related parties: Balance of borrowings December 31, 2018	December 31, 2017	Interest payable December 31, 2018	December 31, 2017
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	-	-	-	-
	$ 7,625	8,416	156	208

(v) Property transactionsg

1) Acquisition of equipment

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

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NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES
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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.	$ 3,049,999

(vi) Lease contracts

	For the years ended December 31,	
	2018	**2017**
Entities with significant influence over the Group	$ 228,800	213,509

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
	$ 100,000	65,099

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	$ -	10

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(9) Commitments and contingencies:

(a) Significant commitments

	December 31, 2018	December 31, 2017
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	419,639	113,261
Total	**$ 1,454,639**	**741,701**

(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.

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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 orfinary 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

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(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 180ays	-		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.

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NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES
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(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)	-
Total revenue	$ 4,452,736	10,079,400	84,269,952	4,678,908	(18,759,192)	84,721,804
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
Reportable segment profit or loss	$ (6,544)	36,323	41,566,538	37,915	(49,895)	41,584,337
Capital expenditure of non-current assets	6,255	490	95,339,823	12,424	-	95,358,992
Reportable segments assets	$ 882,323	2,654,957	203,166,038	31,591,529	(55,709,034)	182,585,813
Reportable segments liabilities	$ 708,537	2,506,403	38,258,740	652,582	(24,447,747)	17,678,515

	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)	-
Total revenue	$ 4,015,786	3,292,806	54,086,251	4,822,504	(11,299,123)	54,918,224
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
Reportable segment profit or loss	$ 39,851	4,765	41,793,083	(250,557)	243,388	41,830,530
Capital expenditure of non-current assets	$ 3,017	622	86,218,545	19,696	-	86,241,880
Reportable segments assets	$ 1,034,197	688,873	150,516,379	1,627,996	(3,088,143)	150,779,302
Reportable segments liabilities	$ 862,239	568,994	18,516,514	1,164,160	(2,447,793)	18,664,114

(c) Types of products and service:

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

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

NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(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	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

Appendix B

NANYA TECHNOLOGY CORPORATION 2018 FINANCIAL STATEMENTS with Independent Accountants' Review Report

Stock Code:2408

(English Translation of Financial Statements and Report Originally Issued in Chinese)

NANYA TECHNOLOGY CORPORATION

Financial Statements

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

Address: No.98, Nanlin Rd., Dake Vil., Taishan Dist., New Taipei City, Taiwan (R.O.C.)
Telephone: (02)2904-5858

The independent auditors' report and the accompanying 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 financial statements, the Chinese version shall prevail.

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Independent Auditors' Report

To the Board of Directors of Nanya Technology Corporation:

Opinion

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

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and 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 Financial Statements section of our report. We are independent of the Company 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 Company. 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 aformentioned investment accounted for using the equity method constituted 1.48% of the 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 total profit before tax for the period from July 25 to December 31, 2018.

Key Audit Matters

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

1. Revenue recognition

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

   Revenue recognition is one of the key audit matter for the user of financial statements and the competent authority. The Company provides a number of different sales terms to customers. Since 2018, the Company 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 included 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 financial statements, as well as determining whether the revenue is recorded in the appropriate period.

2. Valuation of inventories

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

   The Company 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 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 Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

6. Obtain sufficient and appropriate audit evidence regarding the financial information of the entities of the investments in other entities accounted for using the equity method. We are responsible for the direction, supervision and performance of our 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 financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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 financial statements are intended only to present the financial position, financial performance and its cash flows in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and not those of any other jurisdictions. The standards, procedures and practice to audit such financial statements are those generally accepted and applied in the Republic of China.

The independent auditors' report and the accompanying 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 financial statements, the Chinese version shall prevail.

(English Translation of Financial Statements and Report Originally Issued in Chinese)

Nanya Technology Corporation

Balance Sheets

December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	Assets	December 31, 2018 Amount	%	December 31, 2017 Amount	%
	Current assets:				
1100	Cash and cash equivalents (Note 6(a))	$ 46,338,574	23	32,626,041	22
1170	Notes and accounts receivable (Notes 6(c)(r))	6,405,098	3	6,640,926	4
1180	Accounts receivable due from related parties (Notes 6(c)(r) and 7)	3,812,440	2	2,409,673	2
1200	Other receivables (Notes 6(d)(i))	1,303,960	-	11,589,575	8
1310	Inventories (Note 6(e))	12,148,352	6	6,748,226	4
1410	Prepayments	1,757,547	1	1,617,626	1
	Total current assets	71,765,971	35	61,632,067	41
	Non-current assets:				
1550	Investments accounted for using equity method (Notes 6(f) and 7)	34,242,508	18	543,137	-
1600	Property, plant and equipment (Notes 6(h) and 7)	95,339,823	47	86,218,545	57
1780	Intangible assets	45,881	-	136,442	-
1840	Deferred tax assets (Note 6(n))	860,761	-	917,703	1
1935	Long-term lease payments receivable (Note 6(i))	875,900	-	1,043,501	1
1990	Other non-current assets (Note 8)	35,194	-	24,984	-
	Total non-current assets	131,400,067	65	88,884,312	59
	Total assets	$ 203,166,038	100	150,516,379	100

	Liabilities and Equity	December 31, 2018 Amount	%	December 31, 2017 Amount	%
	Current liabilities:				
2120	Current financial liabilities at fair value through profit or loss (Notes 6(b)(k))	$ -	-	2,238,441	1
2170	Accounts payable	4,247,638	2	3,025,200	2
2180	Accounts payable to related parties (Note 7)	332,064	-	299,746	-
2200	Other payables	8,741,863	4	6,205,337	4
2220	Other payables to related parties (Note 7)	21,567,689	11	1,096,433	1
2230	Current tax liabilities	2,455,253	2	1,713,751	1
2399	Other current liabilities	1,568	-	1,954	-
	Total current liabilities	37,346,075	19	14,580,862	9
	Non-Current liabilities:				
2530	Bonds payable (Note 6(k))	-	-	3,286,711	2
2570	Deferred tax liabilities (Note 6(n))	-	-	63,132	-
2640	Net defined benefit liability, non-current (Note 6(m))	537,303	-	525,797	-
2670	Other non-current liabilities	375,362	-	60,012	1
	Total non-current liabilities	912,665	-	3,935,652	3
	Total liabilities	38,258,740	19	18,516,514	12
	Equity (Note 6(o)):				
3110	Ordinary share	31,032,389	15	29,639,382	20
3130	Certificate of entitlement to new shares from convertible bond	-	-	223,958	-
3140	Advance receipts for share capital	6,488	-	-	-
3200	Capital surplus	33,557,005	16	27,277,191	19
3310	Legal reserve	9,192,249	5	5,164,057	3
3320	Special reserve	39,163	-	-	-
3350	Unappropriated retained earnings	94,136,513	46	69,734,440	46
3400	Other equity interest	(273,834)	-	(39,163)	-
3500	Treasury shares	(2,782,675)	(1)	-	-
	Total equity	164,907,298	81	131,999,865	88
	Total liabilities and equity	$ 203,166,038	100	150,516,379	100

See accompanying notes to financial statements.

(English Translation of Financial Statements and Report Originally Issued in Chinese)

NANYA TECHNOLOGY CORPORATION

Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars, Except Earnings Per Share)

		2018		2017	
		Amount	%	Amount	%
4000	Operating revenue (Note 6(r)(s) and 7)	$ 84,269,952	100	54,086,251	100
5000	Operating costs (Notes 6(e)(m)(p)(t) and 7)	38,049,640	45	29,788,306	55
	Gross profit from operations	46,220,312	55	24,297,945	45
5910	Add: Unrealized profit (loss) from sales	(25,381)	-	(97,212)	-
5920	Realized profit (loss) on from sales	97,212	-	56,527	-
	Gross profit from operations	46,292,143	55	24,257,260	45
	Operating expenses (Notes 6(m)(p)(t) and 7):				
6100	Selling expenses	643,649	-	602,575	1
6200	Administrative expenses	1,525,170	2	1,383,184	3
6300	Research and development expenses	4,875,217	6	3,565,465	7
	Total operating expenses	7,044,036	8	5,551,224	11
	Net operating income	39,248,107	47	18,706,036	34
	Non-operating income and expenses (Notes 6(g)(h)(k)(l)(u) and 7):				
7010	Other income	1,018,622	1	385,964	1
7020	Other gains and losses, net	1,203,540	1	23,114,236	43
7050	Finance costs	(5,325)	-	(456,872)	(1)
7060	Share of profit of associates accounted for using equity method	101,594	-	43,719	-
	Total non-operating income and expenses	2,318,431	2	23,087,047	43
7900	**Profit before tax**	41,566,538	49	41,793,083	77
7950	Tax expense (Note 6(n))	2,204,913	2	1,511,156	3
	Profit	39,361,625	47	40,281,927	74
8300	**Other comprehensive income (Notes 6(m)(n)):**				
8310	**Components of other comprehensive income that will not be reclassified to profit or loss**				
8311	Remeasurement of the net defined benefit	(18,096)	-	(83,545)	-
8330	Share of other comprehensive income of subsidiaries and 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	6,190	-	14,203	-
	Components of other comprehensive income that will not be reclassified to profit or loss	(107,007)	-	(69,342)	-
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	-	-	1,602,346	3
	Components of other comprehensive income that will be reclassified to profit or loss	(140,573)	-	(7,828,264)	(14)
8300	**Other comprehensive loss, net**	(247,580)	-	(7,897,606)	(14)
	Comprehensive income	$ 39,114,045	47	32,384,321	60
	Earnings per share (Note 6(q))				
9750	Basic earnings per share	$ 12.80		14.36	
9850	Diluted earnings per share	$ 12.38		13.92	

See accompanying notes to financial statements.

(English Translation of Financial Statements and Report Originally Issued in Chinese)

Nanya Technology Corporation

Statements of Changes in Equity

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

								Other equity interest					
	Ordinary shares	Certificate of entitlement to new shares from convertible bond	Advance receipts for share capital	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	Unrealized gains (losses) on available-for-sale financial assets	Total other equity interest	Treasury shares	Total equity
Balance at January 1, 2017	$ 27,485,658	-	-	11,523,007	2,791,929	4,570	36,296,086	(16,846)	-	7,805,947	7,789,101	(347,533)	85,542,818
Net profit for the year ended December 31, 2017	-	-	-	-	-	-	40,281,927	-	-	-	-	-	40,281,927
Other comprehensive loss for the year ended December 31, 2017	-	-	-	-	-	-	(69,342)	(22,317)	-	(7,805,947)	(7,828,264)	-	(7,897,606)
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	-	-	40,212,585	(22,317)	-	(7,805,947)	(7,828,264)	-	32,384,321
Appropriation and distribution of retained earnings:													
Legal reserve appropriated	-	-	-	-	2,372,128	-	(2,372,128)	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	-	-	(4,122,848)	-	-	-	-	-	(4,122,848)
Reversal of special reserve	-	-	-	-	-	(4,570)	4,570	-	-	-	-	-	-
Other changes in capital surplus:													
Adjustments of capital surplus for cash dividends distributed to subsidiaries	-	-	-	1,031	-	-	-	-	-	-	-	-	1,031
Recognized compensation costs on employee stock options	-	-	-	459,573	-	-	-	-	-	-	-	-	459,573
Conversion of convertible bonds	2,153,724	223,958	-	15,297,911	-	-	-	-	-	-	-	-	17,675,593
Disposal of company's share by subsidiaries recognized as treasury share transactions	-	-	-	(4,331)	-	-	(283,808)	-	-	-	-	347,533	59,394
Changes in ownership interests in subsidiaries	-	-	-	-	-	-	(17)	-	-	-	-	-	(17)
Balance at December 31, 2017	29,639,382	223,958	-	27,277,191	5,164,057	-	69,734,440	(39,163)	-	-	(39,163)	-	131,999,865
Net profit for the year ended December 31, 2018	-	-	-	-	-	-	39,361,625	-	-	-	-	-	39,361,625
Other comprehensive loss for the year ended December 31, 2018	-	-	-	-	-	-	(12,909)	(140,573)	(94,098)	-	(234,671)	-	(247,580)
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	-	-	-	39,348,716	(140,573)	(94,098)	-	(234,671)	-	39,114,045
Appropriation and distribution of retained earnings:													
Legal reserve appropriated	-	-	-	-	4,028,192	-	(4,028,192)	-	-	-	-	-	-
Special reserve appropriated	-	-	-	-	-	39,163	(39,163)	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	-	-	(10,879,288)	-	-	-	-	-	(10,879,288)
Other changes in capital surplus:													
Changes in equity of associates accounted for using equity method	-	-	-	5	-	-	-	-	-	-	-	-	5
Recognized compensation costs on employee stock options	-	-	-	717,656	-	-	-	-	-	-	-	-	717,656
Conversion of convertible bonds	732,839	-	-	4,504,323	-	-	-	-	-	-	-	-	5,237,162
Conversion of certificates of bonds-to-share	223,958	(223,958)	-	-	-	-	-	-	-	-	-	-	-
Repurchase of treasury share	-	-	-	-	-	-	-	-	-	-	-	(2,782,675)	(2,782,675)
Excercise of employee share options	436,210	-	6,488	1,057,830	-	-	-	-	-	-	-	-	1,500,528
Balance at December 31, 2018	$ 31,032,389	-	6,488	33,557,005	9,192,249	39,163	94,136,513	(179,736)	(94,098)	-	(273,834)	(2,782,675)	164,907,298

See accompanying notes to financial statements.

(English Translation of Financial Statements and Report Originally Issued in Chinese)

Nanya Technology Corporation

Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	2018	2017
Cash flows from (used in) operating activities:		
Profit before tax	$ 41,566,538	41,793,083
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	11,975,216	8,418,398
Amortization expense	97,298	141,088
Net loss on financial liabilities at fair value through profit or loss	281,107	7,981,043
Interest expense	5,325	456,872
Interest income	(1,018,622)	(385,964)
Share-based payments	717,656	459,573
Share of profit of subsidiaries and associates accounted for using equity method	(101,594)	(43,719)
Gain on disposal of property, plant and equipment	(16,859)	(3,230)
Amortization costs of issuing bonds	-	5,739
Gain on disposal of financial assets in available-for-sale	-	(32,106,247)
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 loss on sales	25,382	97,212
Realized profit from sales	(97,212)	(56,527)
Unrealized foreign exchange gain	(46,121)	(371,365)
Total adjustments to reconcile profit (loss)	11,711,334	(14,981,681)
Changes in operating assets and liabilities:		
Accounts receivable	(1,173,832)	(3,100,396)
Other receivable	(348,165)	1,051,537
Inventories	(5,400,126)	(2,088,574)
Other current assets	(139,921)	(69,768)
Financial liabilities held for trading	(523,136)	-
Accounts payable (including related parties)	677,569	(2,231,271)
Other payable (including related parties)	2,420,267	4,074,523
Other current liabilities	(386)	(189,974)
Net defined benefit liability	(6,590)	(11,261)
Other non-current liabilities	(1,935)	(45,033)
Total changes in operating assets and liabilities	(4,496,255)	(2,610,217)
Cash inflow generated from operations	48,781,617	24,201,185
Interest received	774,111	211,098
Interest paid	(220)	(323,903)
Income taxes paid	(1,463,411)	(1,884,652)
Net cash flows from operating activities	48,092,097	22,203,728
Cash flows (used in) from investing activities:		
Acquisition of available-for-sale financial assets	-	(1,900,000)
Proceeds from disposal of available-for-sale financial assets	-	56,846,770
Acquisition of investments accounted for using equity method	(13,221,259)	(150,000)
Proceeds from disposal of a subsidiary	176,868	-
Acquisition of property, plant and equipment	(20,418,433)	(29,390,484)
Proceeds from disposal of property, plant and equipment	25,743	3,130
(Increase) decrease in refundable deposits	(11,378)	4
Decrease in other receivables	10,616,574	-
Decrease in lease and installment receivables	429,330	429,330
(Increase) decrease in other non-current assets	(5,569)	345,298
Net cash flows (used in) from investing activities	(22,408,124)	26,184,048
Cash flows used in financing activities:		
Proceeds from issuing convertible bonds	-	15,604,577
Repayments of long-term debt	-	(23,000,000)
Increase in guarantee deposits received	317,376	13,267
Decrease in other payables to related parties	-	(12,500,000)
Decrease in lease payable	-	(4,138)
Cash dividends paid	(10,879,288)	(4,122,848)
Exercise of employee share options	1,500,528	-
Payments to acquire treasury shares	(2,782,675)	-
Net cash flows used in financing activities	(11,844,059)	(24,009,142)
Effect of exchange rate changes on cash and cash equivalents	(127,381)	(179,972)
Net increase in cash and cash equivalents	13,712,533	24,198,662
Cash and cash equivalents at beginning of period	32,626,041	8,427,379
Cash and cash equivalents at end of period	$ 46,338,574	32,626,041

See accompanying notes to financial statements.

(English Translation of Financial Statements and Report Originally Issued in Chinese)

NANYA TECHNOLOGY CORPORATION

Notes to the 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 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 financial statements:

The 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.

New, Revised or Amended Standards and Interpretations	Effective date per IASB
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

(Continued)

NANYA TECHNOLOGY CORPORATION
Notes to the Financial Statements

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

(i) IFRS 15 "Revenue from Contracts with Customers"

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

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 Company 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.

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

(Continued)

the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. For an explanation of how the Company classifies and measures financial assets and accounts for related gains and losses under IFRS 9, please see note 4(f).

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(f).

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 been made on the basis of the facts and circumstances that existed at the date of initial application.

  - The determination of the business model within which a financial asset is held.

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 Company's financial assets as of January 1, 2018.

	IAS39		IFRS9	
	Measurement categories	Carrying Amount	Measurement categories	Carrying Amount
Financial Assets				
Cash and equivalents	Loans and receivables (Note)	$ 32,626,041	Amortized cost	$ 32,626,041
Trade and other receivables	Loans and receivables (Note)	21,683,675	Amortized cost	21,683,675
Other financial assets (Guarantee deposits paid)	Loans and receivables (Note)	2,311	Amortized cost	2,311

Note: Cash and equivalents, notes and accounts receivable (including related parties), 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 at amortized cost upon initially adoption of IFRS 9.

(Continued)

NANYA TECHNOLOGY CORPORATION
Notes to the Financial Statements

(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 Company believes that the adoption of the above IFRSs would not have any material impact on its 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.

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 Company 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 Company 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.

NANYA TECHNOLOGY CORPORATION
Notes to the Financial Statements

2) Transition

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

·retrospective approach; or

·modified retrospective approach with optional practical expedients.

On January 1, 2019, the Company 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 lease 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 Company 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.

3) So far, the most significant impact identified was that the Company will have to recognize the right-of-use assets and lease liabilities for the operating leases of its offices and land. The Company 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 Company's finance leases. The Company is not required to make any adjustments for leases where the Company 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 yet to be endorsed by the FSC:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
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 Company believes that the adoption above IFRSs would not be relevant to the Company.

(Continued)

NANYA TECHNOLOGY CORPORATION
Notes to the Financial Statements

(4) Summary of significant accounting policies:

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

(a) Statement of compliance

The accompanying 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").

(b) Basis of preparation

(i) Basis of measurement

The financial statements have been prepared on the historical cost basis, except for the following material items in the balance sheet:

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

(c) Foreign currency

(i) Foreign currency transactions

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

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Nonmonetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

(Continued)

NANYA TECHNOLOGY CORPORATION
Notes to the Financial Statements

(ii) Foreign operations

The assets and liabilities of foreign operations are translated to the Company'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 Company'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 Company 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 Company 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 planed 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.

(d) 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 Company'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 reporting period; 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.

(Continued)

NANYA TECHNOLOGY CORPORATION
Notes to the Financial Statements

(e) 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 which meet the above definition and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes are classified under cash equivalents.

(f) Financial instruments

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

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

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

The Company 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.

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

(Continued)

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 Company 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 Company 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 Company' s historical experience and informed credit assessment as well as forward-looking information.

The Company 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 Company 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 Company in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Company 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 Company recognizes the amount of expected credit losses (or reversal) in profit or loss, as an impairment gain or loss.

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 Company 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 Company' s procedures for recovery of amounts due.

(Continued)

3) Derecognition of financial assets

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

(ii) Financial assets (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 Company on terms that the Company 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.

All individually significant receivables are assessed for specific impairment. Objective evidence that receivables are impaired includes historical trends of collection and increasing level of overdue receivables which are collected beyond the credit term.

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 general administrative and 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 gain or loss 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 Company 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 is recognized in profit or loss.

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.

(Continued)

NANYA TECHNOLOGY CORPORATION
Notes to the Financial Statements

(iii) Financial liabilities and equity instrument

1) Classification of liabilities or equity instruments

Debt or equity instruments issued by the Company 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 Company 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 Company 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.

3) Derecognition of financial liabilities

A financial liability is derecognized when the 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 Company has 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.

(Continued)

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

The Company 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.

(g) 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.

(h) Investment in associates

Associates are those entities in which the Company 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 arising from the acquisition less any accumulated impairment losses.

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

Unrealized profits resulting from transactions between the Company and an associate are eliminated to the extent of the Company'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 Company's share of losses exceeds its interest in an 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 Company has an obligation or has made payments on behalf of the investee.

When the Company 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 Company's proportionate interest in the net assets of the associate. The Company 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 Company'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.

(i) Subsidiaries

The Company accounts for investee companies in which it has a controlling interest using the equity method. The net income, other comprehensive income, and shareholders' equity in the financial reports of the Company and the net income, other comprehensive income, and shareholder's equity that belongs to the Company in the consolidated financial reports should be the same.

The Company accounts for changes in owners' equity of subsidiaries as equity transactions between the two parties of the transaction, provided that control is still exists.

(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. Cost includes expenditure that is directly attributable to the acquisition of the asset. 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. 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.

(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 Company. The carrying amount of those parts that are replaced is derecognized. Ongoing repairs and maintenance are expensed as incurred.

(Continued)

NANYA TECHNOLOGY CORPORATION
Notes to the Financial Statements

(iii) Depreciation

Depreciation is calculated on the cost of an asset less its residual value on a straight-line basis.

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 15years.

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.

(ii) Lessee

Leases in which the Company 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.

(Continued)

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 Company'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.

(l) 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 Company 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.

The Company assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset 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 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.

(Continued)

NANYA TECHNOLOGY CORPORATION
Notes to the Financial Statements

(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 Company expects to be entitled in exchange for transferring goods or services to a customer. The Company recognizes revenue when it satisfies a performance obligation by transferring control of a good or a service to a customer.

The Company manufactures and sells semiconductor products on the market. The Company 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 Company 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 Company has a right to an amount of consideration that is unconditional.

(ii) Revenue recognition (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.

(Continued)

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 Company'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 Company' 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 Company, 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 Company if it is realizable during the life of the plan, or on settlement of the plan liabilities.

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, 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), are recognized immediately in other comprehensive income. The Company can reclassify the amounts recognized in other comprehensive income to retained earnings.

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.

(Continued)

(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.

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 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.

(Continued)

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

(i) the Company 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 Company 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 Company 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 stock options and employee remuneration.

(t) Operating segments

The Company discloses its information on operating segments in its consolidated financial statements, so it need not disclose such information in its financial statements.

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

The preparation of the financial statements, in conformity with the Regulation 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.

(Continued)

NANYA TECHNOLOGY CORPORATION
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Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is as follows:

(a) Valuation of inventories

As inventories are stated at the lower of cost or net realizable value, the Company 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

	December 31, 2018	December 31, 2017
Demand deposit and checking accounts	$ 5,550,624	3,058,108
Cash equivalents:		
Time deposits	40,382,900	28,975,095
Commercial paper	404,150	302,838
Repurchase agreements collateralized by corporate bonds	900	290,000
	$ 46,338,574	32,626,041

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

(b) Financial liabilities at fair value through profit or loss

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

Derivatives financial instruments are used to hedge foreign currency and interest rate exposures. The Company 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:

	December 31, 2017		
	Contract Amount (in thousand)	Currency	Maturity dates
Forward exchange contract:			
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 Note 6(u).

(Continued)

NANYA TECHNOLOGY CORPORATION
Notes to the Financial Statements

(c) Notes and accounts receivable

	December 31, 2018	December 31, 2017
Notes receivable from operating activities	$ 481	3,577
Accounts receivable (including related parties)-measured at amortized cost	10,217,057	9,047,022
	$ 10,217,538	9,050,599

The Company 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 (including related parties) on December 31, 2018. To measure the expected credit losses, notes and accounts receivables (including related parties) 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.

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

Due days	Notes and accounts receivables (including related parties) Gross carrying amount	Weighted average loss rate	Loss allowance provision
Current	$ 10,217,538	-	-

As of December 31, 2017, the Company applies the incurred loss model to consider the loss allowance provision of notes and accounts receivable (including related parties).

As of December 31, 2018 and 2017, no allowance for impairment was provided because all of the accounts comprising notes and accounts receivable (including related parties) were still within the normal credits terms and were evaluated to be collectable.

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

(d) Other receivables

	December 31, 2018	December 31, 2017
Receivable from stock settlement	$ -	10,616,574
Tax refund receivable	954,358	565,827
Interest receivable	153,029	28,096
Lease payment receivable	167,601	309,752
Others	28,972	69,326
	$ 1,303,960	11,589,575

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.

(Continued)

NANYA TECHNOLOGY CORPORATION
Notes to the Financial Statements

(e) Inventories

	December 31, 2018	December 31, 2017
Raw materials	$ 590,036	332,370
Work in progress	5,870,118	5,266,085
Finished goods	5,688,198	1,149,771
	$ 12,148,352	6,748,226

The Company recognized cost of goods sold amounting to $37,256,103 and $29,090,301 for the years ended December 31, 2018 and 2017, respectively.

The Company 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 years ended December 31, 2018 and 2017.

(f) Investments accounted for using equity method

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

	December 31, 2018	December 31, 2017
Subsidiaries	$ 31,235,905	543,137
Associates	3,006,603	-
	$ 34,242,508	543,137

(i) Subsidiaries

Please refer to the consolidated financial statements as of and for the year ended December 31, 2018 for further information.

(ii) Associates

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

Name of Associates	Nature of Relationship to the Group	Registration Country	Percentage of ownership December 31, 2018
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 %

(Continued)

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Notes to the Financial Statements

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

	December 31, 2018
Formosa Advanced Technologies Co., Ltd.	$ 14,062,667

The aggregated financial information of the major associate was as follows:

The financial information of FATC was as follows:

	December 31, 2018
Current assets	$ 6,792,443
Non-current assets	5,882,131
Current liabilities	(1,231,815)
Non-current liabilities	(86,280)
Net asset	$ 11,356,479
Net asset contributed to FATC	$ 11,356,479

	For the year ended December 31, 2018
Operating revenue	$ 8,785,525
Profit	$ 1,420,293
Other comprehensive income	(138,670)
Total comprehensive income	$ 1,281,623
Comprehensive income contributed to FATC	$ 1,281,623

	For the year ended December 31, 2018
Share of net assets of the major associate at January 1	$ -
Acquisition of share of net assets of the major associate allocated to the Company	2,162,315
Total comprehensive income contributed to the Company	(4,588)
Uncollected dividends beyond the collection period which are reclassified to capital surplus	5
Share of net assets of major associate at December 31	2,157,732
Add:Goodwill	887,684
Less:Unrealized profits on upsteam sales net assets of the associates	(38,813)
Total carrying amount of the major associate	$ 3,006,603

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

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NANYA TECHNOLOGY CORPORATION
Notes to the 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 Company 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:

	February 26, 2018
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	$ 246,615

(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 cach 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
Cost:						
Balance as of January 1, 2018	$ 1,013,924	7,500,788	172,652,020	1,107,626	1,778,293	184,052,651
Additions	-	-	2,479,705	73,510	18,442,418	20,995,633
Disposals	-	-	(541,738)	(65,351)	-	(607,089)
Reclassification	-	237,913	6,085,627	10,727	(6,334,267)	-
Balance as of December 31, 2018	$ 1,013,924	7,738,701	180,675,614	1,126,512	13,886,444	204,441,195
Balance as of January 1, 2017	$ 1,013,924	4,195,631	125,146,911	1,403,638	25,574,571	157,334,675
Additions	-	-	856,150	43,240	26,548,527	27,447,917
Disposals	-	-	(360,939)	(23,366)	-	(384,305)
Reclassification	-	3,305,157	47,009,898	29,750	(50,344,805)	-
Derecognized lease assets	-	-	-	(345,636)	-	(345,636)
Balance as of December 31, 2017	$ 1,013,924	7,500,788	172,652,020	1,107,626	1,778,293	184,052,651

(Continued)

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Notes to the Financial Statements

	Land	Building	Machinery and equipment	Other equipment	Under construction	Total
Accumulated depreciation / impairment:						
Balance as of January 1, 2018	$ -	1,675,736	95,129,619	1,028,751	-	97,834,106
Depreciation for the period	-	301,223	11,652,496	21,497	-	11,975,216
Reversal of impairment loss	-	-	(109,745)	-	-	(109,745)
Disposals	-	-	(532,853)	(65,352)	-	(598,205)
Reclassification	-	-	(185)	185	-	-
Balance as of December 31, 2018	$ -	1,976,959	106,139,332	985,081	-	109,101,372
Balance as of January 1, 2017	$ -	1,449,795	86,874,012	1,124,011	-	89,447,818
Depreciation for the period	-	225,941	8,156,317	36,140	-	8,418,398
Impairment loss	-	-	488,988	-	-	488,988
Disposals	-	-	(360,939)	(23,466)	-	(384,405)
Reclassification	-	-	(28,759)	28,759	-	-
Derecognized lease assets	-	-	-	(136,693)	-	(136,693)
Balance as of December 31, 2017	$ -	1,675,736	95,129,619	1,028,751	-	97,834,106
Carrying amounts:						
Balance as of December 31, 2018	$ 1,013,924	5,761,742	74,536,282	141,431	13,886,444	95,339,823
Balance as of December 31, 2017	$ 1,013,924	5,825,052	77,522,401	78,875	1,778,293	86,218,545

(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 Company recognized an impairment loss of $488,988 for the year ended December 31, 2017. In 2018, the Company 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

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

(i) Lease receivables

(i) On June 18, 2009, the Company 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

(Continued)

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 Company 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
Subtotal	$ 1,321,651	278,150	1,043,501	1,750,980	397,727	1,353,253
Current			$ 167,601			309,752
Non-current			875,900			1,043,501
			$ 1,043,501			1,353,253

(j) Long-term borrowings

(i) The Company 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 Company signed a syndicated loan agreement with Taiwan Cooperative Bank, the lead bank, and 15 other banks (hereinafter referred to as "the syndicate bank") 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 Company has fully repaid the syndicated loan in December, 2017.

(Continued)

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2) The Company 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 on January 2, 2014, and applied for appropriation of loans of $12,000,000 as of November 30, 2017. The Company has fully repaid the syndicated loan in November, 2017.

(k) Bonds Payable

	December 31, 2018	December 31, 2017
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	(14,267,000)	(11,407,906)
Balance at end of period	$ -	3,286,711

	December 31, 2018	December 31, 2017
Embedded derivatives-call and put options and conversion rights remeasured at fair value through loss (included financial liabilities at fair value through profit or loss)	$ -	1,856,146

	For the years ended December 31,	
	2018	2017
Embedded derivatives-call and put options and conversion rights remeasured at fair value through loss (included other gains and losses)	$ 140,266	7,598,748

Item	The first unsecured overseas convertible bond
1. Issue amount	USD500,000 thousand
2. Issue par value	USD200 thousand
3. Issue period	2017.1.24～2022.1.24
4. Bond expiration	5 years
5. Coupon rate	0%
6. Conversion price	TWD52.47 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).

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Notes to the Financial Statements

Item	The first unsecured overseas convertible bond
8. Put option of bond holders	(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).
	(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.
	(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.
9. Call option of issuer	(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.
	(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.
	(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.

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).

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.

(Continued)

NANYA TECHNOLOGY CORPORATION
Notes to the Financial Statements

(l) Finance lease liabilities

(i) The Company 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 finance 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 expenses 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, respectively. These expenses were 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:

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

The Company 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.

(Continued)

NANYA TECHNOLOGY CORPORATION
Notes to the Financial Statements

1) Composition of plan assets

The Labor Pension Fund Supervisory Committee manages the Company'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 Company'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

	For the years ended December 31,	
	2018	2017
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,	$ 1,025,794	984,774

3) Movements in fair value of defined benefit plan assets

	For the years ended December 31,	
	2018	2017
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,	$ 488,491	458,977

(Continued)

NANYA TECHNOLOGY CORPORATION
Notes to the Financial Statements

4) Expenses recognized in profit or loss

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

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

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

6) Actuarial assumptions

	December 31, 2018	December 31, 2017
Discount rate	1.25 %	1.25 %
Future salary increases	2.85 %	2.85 %

Based on the actuarial report, the Company 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
Notes to the 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:

	Effect of defined benefit obligations	
	Increase amount	**Decrease amount**
December 31, 2018		
Discount rate (change 0.25%)	$ 41,904	(39,885)
Future salaries (change1%)	178,420	(149,450)
December 31, 2017		
Discount rate (change 0.25%)	43,318	(41,134)
Future salaries (change1%)	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 Company 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 Company is not required to bear the regulated or putative obligation subsequent to the payment of fixed-rate contribution.

The Company's pension costs under the contribution pension plan amounted to $128,883 and $115,738 for the years ended 2018 and 2017, respectively.

(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 Company's income tax expense recognized for the years ended December 31, 2018 and 2017 were as follows:

	For the years ended December 31,	
	2018	**2017**
Current tax expense		
Current period	$ 2,189,904	1,502,559
Adjustment for prior periods	15,009	8,597
Tax expense	**$ 2,204,913**	**1,511,156**

(Continued)

NANYA TECHNOLOGY CORPORATION
Notes to the Financial Statements

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

	For the years ended December 31,	
	2018	2017
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	2,571	-
	$ 6,190	14,203
Items that may be reclassified subsequently to profit and loss:		
Unrealized (losses) gains on available-for-sale financial assets	$ -	1,602,346

The Company' 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:

	For the years ended December 31,	
	2018	2017
Income tax calculated based on local tax rate	$ 8,313,308	7,104,824
Tax effect of permanent differences	(86,173)	1,318,163
Change in unrecognized temporary differences	178,361	96,495
Tax effect of unrecognized current-year loss carryforward	(8,405,496)	(8,519,482)
Adjustment for prior periods	15,009	8,597
10% surtax on undistributed earnings	2,187,695	1,502,491
Income basic tax	2,209	68
Total	$ 2,204,913	1,511,156

(ii) Deferred tax assets and liabilities

1) Unrecognized deferred income tax assets

	December 31, 2018	December 31, 2017
Net operating loss carry forwards	$ 843,280	7,863,392

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 Company estimates that the taxable income in the future will not be sufficient for covering temporary differences.

(Continued)

NANYA TECHNOLOGY CORPORATION
Notes to the Financial Statements

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

Year	Unused loss carry forward	Expiry year
2012	$ 511,687	2022
2013	3,704,714	2023
Total	$ **4,216,401**	

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：

	Operating loss carry forwards	Others	Total
Balance as of January 1, 2018	$ 297,195	620,508	917,703
Recognized in profit or loss	(201,406)	127,133	(74,273)
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
Balance as of December 31, 2018	$ -	**860,761**	**860,761**
Balance as of January 1, 2017	$ 807,371	61,911	869,282
Recognized in profit or loss	(510,176)	544,394	34,218
Recognized in other comprehensive income	-	14,203	14,203
Balance as of December 31, 2017	$ **297,195**	**620,508**	**917,703**

NANYA TECHNOLOGY CORPORATION
Notes to the Financial Statements

Deferred tax liabilities：

	Unrealized gains (losses) on available-for-sale financial assets	Others	Total
Balance as of January 1, 2018	$ -	63,132	63,132
Recognized in profit or loss	-	(74,273)	(74,273)
Adjustment in tax rate recognized in profit or loss	-	11,141	11,141
Balance as of December 31, 2018	$ -	-	-
Balance as of January 1, 2017	$ 1,602,346	28,914	1,631,260
Recognized in profit or loss	-	34,218	34,218
Recognized in other comprehensive income	(1,602,346)	-	(1,602,346)
Balance as of December 31, 2017	$ -	**63,132**	**63,132**

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

(o) Capital and other equity

As of December 31, 2018 and 2017, the Company'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)

	Ordinary Shares	
	2018	**2017**
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 share options	43,621	-
Balance as of December 31,	**3,103,239**	**2,963,938**

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NANYA TECHNOLOGY CORPORATION
Notes to the Financial Statements

(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 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.

(ii) Capital surplus

	December 31, 2018	December 31, 2017
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	-
	$ 33,557,005	**27,277,191**

In accordance with the R.O.C. Company Act, realized capital reserves can only be reclassified as share capital or distributed as cash dividends after offsetting losses. The aforementioned capital reserves include share premiums and donation gains. In accordance with the Securities Offering and Issuance Guidelines, the capitalization of capital reserves every year shall not exceed 10 percent of the paid-up capital.

(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.

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NANYA TECHNOLOGY CORPORATION
Notes to the Financial Statements

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 R.O.C. Company Act, 10% of net income should be set aside as legal reserve, until it is equal to share capital. When the Company 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.

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:

	For the year ended December 31, 2017	
	Dividends per share	Amount
Dividends attributable to ordinary shareholders:		
Cash dividends	$ 3.51	10,879,288

	For the year ended December 31, 2016	
	Dividends per share	Amount
Dividends attributable to ordinary shareholders:		
Cash dividends	$ 1.50	4,122,848

(Continued)

NANYA TECHNOLOGY CORPORATION
Notes to the Financial Statements

(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					
	Transfering to employees		Protecting the Company's integrity and stockholders 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**

In accordance with Securities and Exchange Act requirements, 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 thousand 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 the 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)

	Exchange differences on translation of foreign financial statements	Unrealized losses from financial assets measured at fair value through other comprehensive income	Total
Balance as of January 1, 2018	$ (39,163)	-	(39,163)
Exchange differences on translation of foreign financial statements	(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	**$ (179,736)**	**(94,098)**	**(273,834)**

NANYA TECHNOLOGY CORPORATION
Notes to the Financial Statements

	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on available-for-sale financial assets	Total
Balance as of January 1, 2017	$ (16,846)	7,805,947	7,789,101
Exchange differences on translation of foreign financial statements	(22,317)	-	(22,317)
Unrealized gains on available-for-sale financial assets	-	(7,805,947)	(7,805,947)
Balance as of December 31, 2017	$ (39,163)	-	(39,163)

(p) Share-based payment transactions

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

	The 7th batch of Employee Stock Option Plan	The 8th batch of Employee Stock Option Plan	The 9th batch of Employee Stock Option Plan
Grant date	2011.3.21	2016.5.10	2016.8.11
Grant unit	70,000	97,500	2,500
Exercise price (Notes1~7)	14.6	38.0	36.6
Deal period	8 years	8 years	8 years
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 price 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.

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NANYA TECHNOLOGY CORPORATION
Notes to the Financial Statements

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

	The 7th batch of Employee Stock Option Plan	The 8th batch of Employee Stock Option Plan	The 9th batch of Employee Stock Option Plan
Dividend rate	- %	- %	- %
Expected volatility	53.79 %	55.47 %	45.80 %
Risk-free rate	0.9307 %	0.5728 %	0.529 %
Fair value of unit stock option (dollar)	$ 5.91	18.77	15.30

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 Company'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

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

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

	December 31, 2018	December 31, 2017
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

(iii) Compensation cost

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

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NANYA TECHNOLOGY CORPORATION
Notes to the Financial Statements

(q) Earnings per share

	For the years ended December 31,	
	2018	2017
Basic earnings per share：		
Net income attributable to the Company	$ 39,361,625	40,281,927
Weighted-average number of ordinary shares outstanding (basic)	3,074,181	2,806,025
Basic earnings per share (dollar)	$ 12.80	14.36
Diluted earnings per share:		
Net income attributable to the Company	$ 39,361,625	40,281,914
Effect of potentially dilutive ordinary shares		
Weighted-average number of ordinary shares (basic)	3,074,181	2,806,025
Effect of employee stock 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)	$ 12.38	13.92

Because of the convertible bonds issued by the Company in 2017 were anti-dilutive, no diluted earnings per share were calculated.

(r) Revenue from contracts with customers

(i) Disaggregation of revenue

	2018
	Manufacturing department
Primary geographic markets:	
Taiwan	$ 37,960,881
Japan	4,299,628
China	25,386,192
USA	10,216,103
Other countries	6,407,148
	$ 84,269,952
Major products line:	
Dynamic Random Access Memory (DRAM)	$ 84,128,271
Other	141,681
	$ 84,269,952

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

NANYA TECHNOLOGY CORPORATION
Notes to the Financial Statements

(i) Contract balances

	December 31, 2018	January 1, 2018
Notes receivable from operating activities	$ 481	3,577
Accounts receivable (including related parties)	10,217,057	9,047,022
Total	**$ 10,217,538**	**9,050,599**

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

(s) Revenue

	2017
Sales revenues	$ 53,941,690
Other	144,561
	$ 54,086,251

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

(t) Remuneration to employees

According to the Company's articles of incorporation, if the Company makes a profit, it should appropriate for employee compensation which is calculated based on 1% to 12% of the Company's net income before tax before deduction of employee compensation, and after offsetting accumulated deficits, if any, should be distributed as employee compensations. Employees who are entitled to receive the above mentioned employee compensation, 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 was estimated based on the Company's net income before tax before deducting any employee compensation, 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 December 31, 2018, and the amounts 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 the difference of $1,830 in profit or loss in 2018.

NANYA TECHNOLOGY CORPORATION
Notes to the Financial Statements

(u) Non-operating income and expenses

(i) Other income

	For the years ended December 31,	
	2018	2017
Interest Income		
Bank deposits and short-term notes	$ 899,044	235,724
Financial leases	119,578	150,240
	$ 1,018,622	385,964

(ii) Other gains and losses—net

	2018	2017
Gain on disposal of property, plant and equipment	$ 16,859	3,230
Gain on disposal of lease payable	-	63,542
Gain on disposal of available-for-sale financial assets	-	32,106,247
Reversal of impairment loss (impairment loss) on non-financial assets	109,745	(488,988)
Foreign exchange gain (loss)	1,231,734	(924,980)
Net loss on financial assets and liabilities at fair value through profit or loss	(281,107)	(7,981,043)
Gain on disposal on a subsidiary	497	-
Others	125,812	336,228
	$ 1,203,540	23,114,236

(iii) Finance costs

	For the years ended December 31,	
	2018	2017
Bank loan	$ 26	352,567
Financing from entities with significant influence over the Company	-	69,898
Financing from other related parties	-	20,238
Lease payments	-	2,700
Amortization interest of overseas convertible bond	5,105	175,186
Others	194	184
Less: Capitalized of interest	-	(163,901)
	$ 5,325	456,872

(Continued)

NANYA TECHNOLOGY CORPORATION
Notes to the Financial Statements

(v) Reclassification adjustment of other comprehensive income

	For the year ended December 31, 2017
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 income	$ (7,805,947)

(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 Company's customers are mostly those in the high-tech industry. In order to reduce accounts receivable credit risk, the Company continuously assesses the financial condition of its customers. If it is necessary, the Company will ask for guarantees or warranties. The Company 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 Company's major customers consisted of five and eight customers which accounted for 61.70% and 82.46%, 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 (including related parties), 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 Company 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.

(Continued)

NANYA TECHNOLOGY CORPORATION
Notes to the Financial Statements

(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:

	Carrying amount	Contractual cash flow	Within 6 months	6-12months	1-2years	2-5years	Over 5 years
December 31, 2018							
Non-derivative financial liabilities							
Accounts payable (including related parties)	$ 4,579,702	4,576,702	4,579,702	-	-	-	-
Other payable (including related parties)	30,309,552	30,309,552	30,309,552	-	-	-	-
	$ 34,889,254	34,886,254	34,889,254	-	-	-	-
December 31, 2017							
Non-derivative financial liabilities							
Accounts payable (including related parties)	$ 3,324,946	3,324,946	3,324,946	-	-	-	-
Other payable (including related parties)	7,301,770	7,301,770	7,301,770	-	-	-	-
Bonds payable	3,286,711	3,759,096	-	-	-	3,759,096	-
Subtotal	13,913,427	14,385,812	10,626,716	-	-	3,759,096	-
Derivative financial liabilities							
Derivative instruments not used for hedging	382,295	382,295	382,295	-	-	-	-
Embedded derivative-convertible bonds	1,856,146	-	-	-	-	-	-
Subtotal	2,238,441	382,295	382,295				
Total	$ 18,390,309	15,150,402	11,391,306	-	-	3,759,096	-

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

	December 31, 2018			December 31, 2017		
	Foreign currency (in thousands)	Foreign rate (dollars)	New Taiwan Dollars	Foreign currency (in thousands)	Foreign rate (dollars)	New Taiwan Dollars
Financial assets:						
Monetary items						
USD	$ 1,565,780	30.733	48,121,117	1,333,247	29.848	39,794,756
JPY	3,219,721	0.2772	892,507	4,775,053	0.2641	1,261,091
EUR	7	35.1670	246	25	35.608	890
Financial liabilities:						
Monetary items						
USD	$ 785,778	30.733	24,149,315	552,528	29.848	16,491,856
JPY	2,644,019	0.2772	732,922	1,151,036	0.2641	303,989
EUR	4,387	35.1670	154,278	1,567	35.608	55,798

(Continued)

NANYA TECHNOLOGY CORPORATION
Notes to the Financial Statements

2) Sensitivity analysis

The Company' s exposure to foreign currency risk arises from the foreign currency exchange fluctuations on cash and cash equivalents, accounts receivable (including related parties), accounts payable, and other payables (including related parties) which are denominated in different foreign currencies. A 1% depreciation of the TWD against the USD, EUR, and JPY as of December 31, 2018 and 2017 would have increased the net income before tax by $239,774 and $242,051 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.

Since the Company has many kinds of functional currency, the information on foreign exchange loss on monetary items is disclosed by total amount. For the years ended December 31, 2018 and 2017, foreign exchange gain (loss) (including realized and unrealized portions) amounted to $1,231,734 and $924,980, respectively.

(iv) Fair value of financial instruments

1) Types and fair value of financial instruments

The fair value of financial liabilities at fair value though profit or loss was measured at recurring fair value. The carrying amount and fair value of the Company'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 :

	December 31, 2018				
		Fair Value			
	Book Value	Level 1	Level 2	Level 3	Total
Financial assets measured at amortized cost					
Cash and cash equivalents	$ 46,338,574	-	-	-	-
Notes and accounts receivable (including related parties)	10,217,538	-	-	-	-
Other receivables	1,136,359	-	-	-	-
Lease payments receivable (including current portion)	1,043,501	-	-	-	-
Total	$ 58,735,972	-	-	-	-
Financial liabilities measured at amortized cost					
Accounts payable (including related parties)	$ 4,579,702	-	-	-	-
Other payables (including related parties)	30,309,552	-	-	-	-
Total	$ 34,889,254	-	-	-	-

NANYA TECHNOLOGY CORPORATION
Notes to the Financial Statements

	December 31, 2017				
		Fair Value			
	Book Value	Level 1	Level 2	Level 3	Total
Loans and receivables :					
Cash and cash equivalents	$ 32,626,041	-	-	-	-
Notes and accounts receivable (including related parties)	9,050,599	-	-	-	-
Other receivables	11,279,823	-	-	-	-
Lease payments receivable (including current portion)	1,353,253	-	-	-	-
Total	$ 54,309,716	-	-	-	-
Financial liabilities					
Derivate financial liabilities	$ 2,238,441	-	2,238,441	-	2,238,441
Financial liabilities measured at amortized cost					
Notes and accounts payable (including related parties)	3,324,946	-	-	-	-
Other payables (including related parties)	7,301,770	-	-	-	-
Bonds payable	3,286,711	-	3,405,337	-	3,405,337
Subtotal	13,913,427	-	3,405,337	-	3,405,337
Total	$ 16,151,868	-	5,643,778	-	5,643,778

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

The Company'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 Company'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
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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 Company 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 Company'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 financial statements.

(ii) Framework of risk management

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

The Company's risk management policies are established to identify and analyze the risks being faced by the Company, 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 Company's activities. The Company, 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 Company's board of directors oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Company'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.

(iii) Credit risk

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

(Continued)

1) Accounts receivable

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Company'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 Company has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company'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 Company; these limits are reviewed quarterly. Customers that fail to meet the Company's benchmark creditworthiness may transact with the Company only on a prepayment basis.

The Company established an impairment allowance that represents its estimate of incurred losses in respect of accounts receivable and investments. Major components of this impairment allowance are specific loss component that is related to individually significant exposure and collective loss component where is 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 Company'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 Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Also, the Company'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 Company's reputation.

The Company 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 Company 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 Company 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 Company has unused bank facilities for $15,337,000 as of December 31, 2018.

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NANYA TECHNOLOGY CORPORATION
Notes to the Financial Statements

(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 Company'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 Company 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 Company'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 Company, 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 Company may apply for loans in other currency for operating purpose.

2) Other market value risk

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

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

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

Financing activities which did not have any impact on the current cash flows:

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

(z) Capital management

The Company'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 Company's equity.

NANYA TECHNOLOGY CORPORATION
Notes to the Financial Statements

The Company 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 Company 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 Company's debt-to-capital ratio on reporting date was as follows:

	December 31, 2018	December 31, 2017
Total Liabilities	$ 38,258,740	18,516,514
Deduct: cash and cash equivalents	(46,338,574)	(32,626,041)
Net liabilities	**$ (8,079,834)**	**(14,109,527)**
Total equity	**$ 164,907,298**	**131,999,865**
Debt-to-capital ratio	**(4.90)%**	**(10.69)%**

The Company 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 financial statements.

Name of related party	Relationship with the Company
Piece Makers Technology, Corp.	The Company's subsidiary (Note 1)
Nanya Technology Corp. U.S.A.	The Company's subsidiary
Nanya Technology Corp. Delaware	The Company's subsidiary
Nanya Technology Corp. H.K.	The Company's subsidiary
Nanya Technology Corp. Japan	The Company's subsidiary
Nanya Technology International, Ltd.	The Company's subsidiary
Nanya Technology Corp. Europe GmbH	The Company's subsidiary
Nanya Technology Corp. Shenzhen	The Company's subsidiary
Nan Ya Photonics Incorporation	The Company's other related parties
Nan Ya Printed Circuit Board Corp.	The Company's other related parties
Formosa Sumco Technology Corporation	The Company's other related parties
Formosa Advanced Technologies Co., Ltd.	The Company's associates (Note 2)
Formosa Technologies Corporation	The Company's other related parties
Formosa Biomedical Technology Corp.	The Company's other related parties
Formosa Petrochemical Corporation	The Company's other related parties
Formosa Chemicals & Fibre Corporation	The Company's other related parties
Formosa Plastics Corporation	The Company's other related parties
Formosa FCFC Carpet Corporation	The Company's other related parties

(Continued)

NANYA TECHNOLOGY CORPORATION
Notes to the Financial Statements

Name of related party	Relationship with the Company
Formosa Waters Technology Co., Ltd.	The Company's other related parties
Nan Ya Plastics Corporation	The entity with significant influence over the Company

Note1: On February 26, 2018, the Company had fully disposed all of its shares in Piece Makers, resulting in its loss of control over it. Therefore, Piece Makers was no longer a subsidiary of the Company.

Note2: 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 related-party transactions

(i) Sales to related parties

	Sales For the years ended December 31,		Accounts receivable to related parties	
	2018	2017	December 31, 2018	December 31, 2017
Subsidiaries				
Nanya Technology Corp. USA	$ 9,918,899	3,267,321	2,500,336	540,833
Other Subsidiaries	8,376,751	7,666,071	1,312,104	1,868,840
Other related parties	-	6,023	-	-
Total	$ 18,295,650	10,939,415	3,812,440	2,409,673

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 O/A 60 to 180 days and 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 expected credit loss (bad debt provision) is necessary based on the result of management's evaluation.

(ii) Purchase from related parties

	Purchases For the years ended December 31,		Accounts payable to related parties	
	2018	2017	December 31, 2018	December 31, 2017
Entities with significant influence over the Company	$ 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	172,238	67,162	4,370	4,862
Total	$ 1,984,897	1,495,448	332,064	299,746

(Continued)

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Notes to the Financial Statements

The purchase price and payment terms for the purchase from related parties above are not significantly different from those with third party vendors, and the average payment period for notes and accounts payable pertaining to such purchase transactions ranged from one to two months, which was similar to that of other normal vendors.

(iii) Consigned out for processing

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

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

(iv) Service received

	Other gains		Administrative expenses		Other payables to related parties	
	For the years ended December 31,		For the years ended December 31,			
Relationship	2018	2017	2018	2017	December 31, 2018	December 31, 2017
Subsidiaries						
Nanya Technology Corp. USA	$ 308	-	-	-	-	-
Nanya Technology Corp. Europe GmbH	185	-	-	-	-	-
Nanya Technology Corp. Shen zhen	-	-	54,137	29,795	3,923	2,132
Nanya Technology Corp. Delaware	154	-	424,451	372,034	41,493	36,107
Piece Makers Technology, Corp.	-	1,200	-	5,469	-	964
	$ 647	1,200	478,588	407,298	45,416	39,203

(v) Financing from related parties

	Financial Cost	
	For the years ended December 31,	
	2018	2017
Entities with significant influence over the Company	$ -	69,898
Other related parties:		
Nan Ya Printed Circuit Board Corp.	-	14,725
Other related parties	-	5,513
	$ -	90,136

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Notes to the Financial Statements

(vi) Property transactions

1) Acquisition of equipment:

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

2) Acquisition of Financial Assets

		For the year ended December 31, 2018			December 31, 2018
Relationship	Account	Number of shares of transaction (in thousands)	Item of transaction	Acquisition price	Other payables to related parties
Associates	Investments accounted for using equity method	84,022	Shares of Formosa Advanced Technologies Co., Ltd.	$ 3,049,999	-
Subsidiary	Investments accounted for using equity method	1	Shares of Nanya Technology International, Ltd.	30,888,000	20,591,110
				$ 33,937,999	20,591,110

(vii) Lease contracts

	For the years ended December 31	
	2018	2017
Entities with significant influence over the Company	$ 228,800	213,509

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	$ 55,335	21,266
Share-based payment	18,957	12,004
	$ 74,292	33,270

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

(8) Pledged assets:None

(Continued)

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Notes to the Financial Statements

(9) Commitments and contingencies:

(a) Significant commitments

	December 31, 2018	December 31, 2017
Guarantees for importation goods provided by bank	$ 1,035,000	595,000
Unused letters of credit	419,639	113,261
Total	**$ 1,454,639**	**708,261**

(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 Company 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.

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.

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NANYA TECHNOLOGY CORPORATION
Notes to the Financial Statements

(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 the Company's 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	1,959,182	5,904,964	3,473,249	1,536,807	5,010,056
Labor and health insurance	175,515	67,033	242,548	158,272	60,050	218,322
Pension expenses	92,607	48,129	140,736	87,708	39,263	126,971
Remuneration of directors	-	6,300	6,300	-	6,360	6,360
Other personnel expenses	68,850	22,730	91,580	61,475	20,251	81,726
Depreciation expenses	11,827,103	148,113	11,975,216	8,357,226	61,172	8,418,398
Amortization expenses	97,298	-	97,298	141,088	-	141,088

As of December 31, 2018 and 2017, the Company had 3,164 and 2,930 employees, respectively, including 10 non-employee directors for both years.

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Notes to Financial Statements

(13) Other disclosures:

(a) Information on significant transactions:

The following is the information on significant transactions required by the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" for the Company:

(i) Loans to other parties: None

(ii) Guarantees and endorsements for other parties: None

(iii) Securities held as of December 31, 2018 (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				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) Individual securities acquired or disposed of with accumulated amount exceeding the lower of $300 million or 20% of the Company's paid-in capital:

(In Thousands of New Taiwan Dollars / shares)

Name of company	Category and name of security	Account name	Name of counter-party	Relationship with the company	Beginning Balance		Purchases		Sales				Ending Balance		Note
					Shares (thousand)	Amount	Shares (thousand)	Amount	Shares (thousand)	Price	Cost	Gain on disposal	Shares (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)
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: Refer to details of investments accounted for using equity method to Note 6(f).

(v) Acquisition of individual real estate with amount exceeding the lower of $300 million or 20% of the Company's paid-in capital: None

(vi) Disposal of individual real estate with amount exceeding the lower of $300 million or 20% of the Company's paid-in capital: None

(vii) Related-party transaction for purchases and sales for which amounts exceeding the lower of $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%	-
The Company	Nanya Technology Corp., H.K.	Subsidiary	(Sale)	(192,683)	(0.23) %	O/A 60~90Days	-		28,948	0.28%	-
The Company	Nanya Technology Corp., Japan	Subsidiary	(Sale)	(4,297,141)	(5.10) %	O/A 180ays	-		701,225	6.86%	-
The Company	Nanya Technology Europe GmbH	Subsidiary	(Sale)	(3,864,670)	(4.59) %	O/A 60~90Days	-		581,931	5.70%	-
The Company	Formosa Sumco Technology Corp.	Other related parties	Purchase	1,729,352	11.66 %	O/A 60Days	-		(322,068)	7.03%	-

(Continued)

NANYA TECHNOLOGY CORPORATION
Notes to Financial Statements

(viii) Receivables from related parties with amounts exceeding the lower of $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	Account 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	-

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

(b) Information on investees:

The following is the information on investees for the year ended December 31, 2018 (excluding information on investees in Mainland China):

(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			Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2018	December 31, 2017	Shares (thousand)	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	24,676	24,676	-
The Company	Nanya Technology Corp., Delaware	U.S.A	Design of semiconductor products	36,005	36,005	-	100.00 %	149,539	15,445	15,445	-
The Company	Pei Jen Co., Ltd.	Taipei	Import/export business	-	325,348	-	100.00 %	-	606	606	-
The Company	Nanya Technology Corp., HK	Hong Kong	Sales of semiconductor products	66,271	66,271	20	100.00 %	52,516	12,831	12,831	-
The Company	Nanya Technology Corp., Japan	Japan	Sales of semiconductor products	20,161	20,161	1	100.00 %	171,025	(6,593)	(6,593)	-
The Company	Piece Makers Technology Inc.	Hsinchu	Design of semiconductor products	-	21,246	-	- %	-	(1,669)	(894)	-
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	1,420,293	51,700	-
The Company	Nanya Technology International, Ltd.	British Virgin Island	Gerneral investment business	30,888,000	-	1	100.00 %	30,736,892	3,823	3,823	-
Nanya Technology Corp., HK	Nanya Technology Europe GmbH	Germany	Sales of semiconductor products	30,056	30,056	-	100.00 %	62,831	4,081	4,081	-

(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	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%	7,013	14,115	-

(ii) Limitation on investment in Mainland China:

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:

Please refer to the consolidated financial statements as of and for the year ended December 31, 2018.

Nanya Technology Corporation

STATEMENT OF CASH AND CASH EQUIVALENTS

December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

Items	Description	Amount	Note
Cash in bank	Checking Account	$ 12,500	
	Demand deposits	3,039,427	
	Foreign currency deposits	2,498,697	(Note1)
Cash Equivalents	Time deposits	40,382,900	(Note2)
	Repurchase bonds	900	
	Commercial paper	404,150	
Total		$ 46,338,574	

Note 1

	Original currency(dollar)	Exchange rate
USD	75,074,833.41	30.733
JPY	689,612,202.00	0.2772
EUR	7,434.88	35.167

Note 2:

Bank	Original currency (dollar)		Exchange rate	Term
Bank of China	USD	100,190,417.50	30.733	2018.08.02～2019.2.22
Taipei Fubon Bank	USD	100,547,703.63	30.733	2018.10.09～2019.1.09
Bank of Taiwan	USD	152,083,764.52	30.733	2018.11.29～2019.1.28
Taiwan Cooperative Bank	USD	121,010,768.59	30.733	2018.11.27～2019.1.04
Credit Agricole CIB	USD	30,405,311.27	30.733	2018.08.29～2019.3.04
E.SUN Bank	USD	30,000,000.00	30.733	2018.08.22～2019.2.22
DBS Bank(Taiwan)	USD	80,000,000.00	30.733	2018.11.30～2019.1.04
Taiwan Business Bank	USD	60,286,200.00	30.733	2018.11.05～2019.1.04
Taiwan Business Bank	NTD	3,000,000,000.00	1.000	2018.07.19～2019.3.19
Mizuho Bank	USD	25,156,937.50	30.733	2018.11.30～2019.1.04
Chang Hwa Bank	USD	145,058,590.00	30.733	2018.10.24～2019.1.04
Hua Nan Bank	USD	126,556,063.08	30.733	2018.11.05～2019.1.04
First Bank	USD	81,419,725.47	30.733	2018.10.05～2019.1.07
Yuanta Bank	USD	50,000,000.00	30.733	2018.11.14～2019.1.07
Bank SinoPac	USD	30,142,759.39	30.733	2018.11.27～2019.1.04
Mega International Commercial Bank	USD	50,329,213.70	30.733	2018.12.28～2019.3.28
Mega International Commercial Bank	TWD	20,000,000.00	1.000	2018.11.09～2019.5.09
Far Eastern Int'l Bank	TWD	1,000,000,000.00	1.000	2018.07.13～2019.4.13

Nanya Technology Corporation

STATEMENTS OF NOTES AND ACCOUNTS RECEIVABLES

December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

Clients	Amount
Non-related parties:	
KINGSTONE	$ 1,566,897
MStar	953,378
EcoNet	399,815
Techmosa International Inc.	398,787
WT Microelectronics	392,988
Others	2,693,233
Total	$ 6,405,098

Nanya Technology Corporation

STATEMENT OF INVENTORY

December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

Items	Amount	
	Cost	Net Realizable value
Raw materials	$ 590,036	590,036
Work in process	5,870,118	5,870,118
Finished goods	5,688,198	5,688,198
Total	$ 12,148,352	12,148,352

Nanya Technology Corporation

STATEMENT OF PREPAYMENTS

December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

Items	Description	Amount
Prepayment for supplies	Raw materials	$ 94,545
	Project maintenance	1,021,628
	Computer usage charge fee	138,294
	Others	503,080
Total		$ 1,757,547

Nanya Technology Corporation

STATEMENT OF CHANGES IN INVESTMEMTS ACCOUNTED FOR USING EQUITY METHOD

For the year ended December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

	Beginning Balance		Additions		Disposals				Ending Balance			
Investee Company	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Others (Note)	Income from investments	Number of Shares	Percentage of ownership	Amount	Guarantee or pledge
Nanya Technology Corp, USA	2,400	$ 78,503	-	-	-	-	20,642	24,676	2,400	100.00 %	123,821	Nil
Nanya Technology Corp, Delaware	1	132,631	-	-	-	-	-	15,445	1	100.00 %	148,076	Nil
Pei Jen Co., Ltd.	2,935,200	43,691	-	-	2,935,200	44,297	-	606	-	- %	-	Nil
Nanya Technology Corp, HK	19,699	47,267	-	-	-	-	-	12,831	19,699	100.00 %	60,098	Nil
Nanya Technology Corp, Japan	1,000	198,502	-	-	-	-	(86)	(6,593)	1,000	100.00 %	191,823	Nil
Formosa Advanceed Technologies Co., Ltd.		-	84,022,000	3,049,999	-	-	(95,096)	51,700	84,022,000	19.00 %	3,006,603	Nil
Piece Makers Technology, Corp.	8,709,891	81,706	-	-	8,709,891	132,087	51,275	(894)	-	- %	-	Nil
Nanya Technology International, Ltd	-	-	1,000	30,888,000	-	-	-	3,823	1,000	100.00 %	30,891,823	Nil
Subtoatl		582,300		33,937,999		176,384	(23,265)	101,594			34,422,244	
Add: Exchange differences on translation of foreign financial statements												
Nanya Technology Corp, USA		(1,887)		-		-	3,999	-			2,112	
Nanya Technology Corp, Delaware		(2,669)		-		-	4,132	-			1,463	
Nanya Technology Corp, HK		(5,387)		-		-	(2,195)	-			(7,582)	
Nanya Technology Corp, Japan		(29,220)		-		-	8,422	-			(20,798)	
Nanya Technology International, Ltd		-		-		-	(154,931)	-			(154,931)	
Subtoatl		(39,163)		-		-	(140,573)	-			(179,736)	
		$ 543,137		33,937,999		176,384	(163,838)	101,594			34,242,508	

Note : The amounts consisted of unrealized net profit or loss from sales amounting to $71,831, share of profit of associates accounted for using equity method amounting to $(45,101),and changes in equity of associates accounted for using equity method amounting to $5.

Nanya Technology Corporation

STATEMENT OF ACCOUNTS PAYABLES

December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

Items	Description	Amount
Accounts Payable	Purchase of O/A	$ 1,586,564
	Purchase of raw material and supplies	2,549,356
	Others	111,718
Total		$ 4,247,638

STATEMENT OF OTHER PAYABLES

Items	Amount
Salaries payable	$ 2,497,814
Royalty Payable	3,944,915
Consigned out for processing	882,143
Others	1,416,991
	$ 8,741,863

Nanya Technology Corporation

STATEMENT OF OPERATING COST

For the year ended December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

Items	Amount
Beginning balance of year for raw materials	$ 332,370
Add: raw materials purchased	14,828,269
Ending balance of year for raw materials	590,036
Less: Others	(25,683)
Reclassified to manufacturing and operating expenses	(6,924,568)
Usage material	7,620,352
Direct labor	490,117
Manufacturing expenses	35,449,259
Manufacturing Costs	43,559,728
Beginning balance of year for work in progress	5,266,085
Add: Transferred from finished goods	3,502,353
Less: Reclassified to operating expenses	(1,142,485)
Ending balance of year for work in progress	(5,870,118)
Cost of finished goods	45,315,563
Beginning balance of year for finished goods	1,149,771
Less: Reclassified to work in progress	(3,502,353)
Reclassified to operating expenses	(18,680)
Ending balance of year for finished goods	(5,688,198)
Add: Other costs	144,495
Loss on work stoppage	649,042
Operating costs	**$ 38,049,640**

Nanya Technology Corporation

STATEMENT OF SELLING EXPENSE

For the year ended December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

Items	Amount
Air Freights on export sales	$ 92,283
Commissions on export sales	65,254
Salaries	297,792
Benefits	42,308
Others	146,012
Total	**$ 643,649**

Nanya Technology Corporation

STATEMENT OF ADMINISTRATION EXPENSE

For the year ended December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

Items	Amount
Salaries	$ 629,371
Amortization expenses	182,005
Professional service fees	160,042
Maintenance expenses	154,717
Utilities	82,468
Miscellaneous expenses	135,336
Others	181,231
	$ 1,525,170

Nanya Technology Corporation

STATEMENT OF RESEARCH AND DEVELOPMENT EXPENSE

December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

Items	Amount
Salaries	$ 1,153,482
Computer usage expenses	373,806
Testing material expenses	2,692,305
Others	655,624
	$ 4,875,217