

Holtek Semiconductor Inc.

2018 Annual Report

Notice to readers

This English version annual report is a summary translation of the Chinese version and is not an official document of the shareholders' meeting. If there is any discrepancy between the English version and Chinese version, the Chinese version shall prevail.

Taiwan Stock Exchange Market Observation Post System: <http://mops.twse.com.tw>

Holtek Semiconductor Inc. Website: <http://www.holtek.com.tw>

Printed on April 15, 2019

I. Spokesperson and Acting Spokesperson Contact Information

Spokesperson

Name: Tsai, Jung-Tsung, Vice President of Sales & Marketing Center

Tel: 886-3-563-1999

E-mail: armstro@holtek.com.tw

Acting Spokesperson

Name: Liao, Ming-Tung, Manager of Finance & Accounting Division

Tel: 886-3-563-1999

E-mail: eliao@holtek.com.tw

II. Holtek Address and Telephone Number

Holtek Semiconductor Inc. (Hsinchu Headquarters)

No.3, Creation Rd. II, Science Park, Hsinchu 300, Taiwan (R.O.C.)

Tel: 886-3-563-1999

Holtek Semiconductor Inc. (Hong Kong Branch)

Block A, 3/F, Tin On Industrial Building, 777-779, Cheung Sha Wan Rd., Kowloon, Hong Kong

Tel: 852-2745-8288

Holtek Semiconductor Inc. (Taiwan and Overseas Sales Division)

4F-2, No. 3-2, Yuan Qu St., Nankang Software Park, Taipei 115, Taiwan (R.O.C.)

Tel: 886-2-2655-7070

Holtek Semiconductor (China) Inc.

Building No. 10, Xinzhu Court, (No. 1 Headquarters), 4 Xinzhu Road, Songshan Lake, Dongguan, China 523808

Tel: 86-769-2626-1300

III. Common Share Transfer Agent and Registrar

Company: the Transfer Agency Department of SinoPac Securities Corporation

Address: 3F, No.17, Bo'ai Rd., Zhongzheng Dist., Taipei City 100, Taiwan (R.O.C.)

Website: www.sinotrade.com.tw

Tel: 886-2-2381-6288

IV. Independent Auditors

Auditors: Tseng, Mei-Yu and Yu, Wan-Yuan

Company: KPMG

Address: 68F, Taipei 101 Tower, No.7, Sec.5, Xinyi Road, Taipei City 110, Taiwan (R.O.C.)

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

Tel: 886-2-8101-6666

V. Corporate Website

<http://www.holtek.com/>

Contents

I. Letter to Shareholders.....	1
 II. Company Profile	
2.1 Date of Incorporation.....	4
2.2 Company History.....	4
 III. Corporate Governance	
3.1 Organization.....	8
3.2 Directors and Management Team.....	13
3.3 Remunerations of Directors, General Manager and Vice Presidents.....	23
3.4 Implementation of Corporate Governance.....	33
3.5 Information on the Fees for CPAs.....	70
3.6 Information on the Replacement of CPAs.....	70
3.7 Where the Company's Chairman and Management Team Members in charge of Finance or Accounting Matters has Held a Position at the Accounting Firm of its Independent Auditors or at an Affiliated Enterprise in the Most Recent Year.....	70
3.8 Transfer of Stock Options and Changes in Equity Pledge of Directors, Supervisors, Managers, and Shareholders Holding More Than 10% of Shares in the Latest Year and as of the Date of Printing of Annual Report.....	71
3.9 Information Disclosing the Relationship between Any of the Company's Top Ten Shareholders.....	72
3.10 The Total Number of Shareholdings Held by the Company, its Directors and Management Team Members and Any Re-invested Companies by the Company, controlled either directly or indirectly by the Company.....	73
 IV. Capital Overview	
4.1 Capital and Shares.....	74
4.2 Status of Corporate Bonds.....	81
4.3 Status of Preferred Shares.....	81
4.4 Status of Global Depository Receipts.....	81
4.5 Status of Employee Stock Option Plan.....	81
4.6 Status of New Issuance of Employee Restricted Stock.....	81
4.7 Status of New Shares Issuance in connection with Mergers and Acquisitions.....	81
4.8 Financing Plans and Implementation.....	81

V. Operational Highlights

5.1 Business Activities.....	82
5.2 Market, Production and Sales Overview.....	94
5.3 Employee Information.....	101
5.4 Information on the Expenditures for Environmental Protection.....	101
5.5 Labor Relations.....	101
5.6 Material Contracts.....	105

VI. Financial Information

6.1 Five-Year Financial Summary.....	106
6.2 Five-Year Financial Analysis.....	110
6.3 Audit Committee's Review Report	113
6.4 Consolidated Financial Statements and Independent Auditors' Report –the Company & Subsidiaries.....	113
6.5 Financial statements and Independent Auditors' Report – the Parent Company.....	113
6.6 The Impact on the Company's Financial Status in Cases Where the Company or its Affiliates Have Experienced Financial Difficulties.....	113

VII. Review of Financial Conditions, Operating Results, and Risk Management

7.1 Analysis of Financial Status.....	265
7.2 Analysis of Operating Results.....	266
7.3 Analysis of Cash Flow.....	267
7.4 Major Capital Expenditure.....	268
7.5 Investment Policies.....	268
7.6 Risk Management.....	268
7.7 Other Material Events.....	271

VIII. Special Disclosure

8.1 Summary of Affiliated Companies.....	272
8.2 Private Placement Securities.....	283
8.3 Holding or Disposition of the Company's Stock List by Subsidiaries.....	283
8.4 Other Supplementary Information.....	283
8.5 The Most Recent Fiscal Year and Up to the Date of This Annual Report Printed, Any Event That Significantly Affects the Shareholders' Equity or Stock Price of the Company as Stated in Subsection 2, Paragraph 3, Article 36 of the Securities and Exchange Act.....	283

I. Letter to Shareholders

Dear Shareholders,

Holtek Semiconductor Inc. (hereinafter referred to as “the Company”) has been established for 20 years since its origins in 1998. Over the past 20 years, and in facing the challenges of the millennium, the global financial crisis and European debt crisis, all of which created increasing macroeconomic uncertainty, the management team and colleagues consistently focused its energies in the enhancement of new IC functional development and technological innovation. The Company has kept up with market trends, in the process releasing a wide range of highly competitive MCUs and Peripheral ICs resulting in stable and healthy growth to achieve excellent and consistent annual returns.

2018 was full of challenges and threats which occurred due to trade friction between China and the United States, resulting in slower global economic growth, rising costs from foundries, and the expansion of the semiconductor industry in China. Fortunately, due to the vibrant global IC market in applications for memory, automotive, smart homes, safety and security, Internet of things (IoT), the company was able to achieve new high records in revenues and profits. Additionally, the Company has been awarded the "Best Financially Managed Semiconductor Company" for 2018 announced by the Global Semiconductor Association (GSA) for its excellent operating performance and financial results. This was indeed an excellent achievement for the company as it was the only recipient to come from Taiwan.

The consolidated sales in 2018 were NT\$ 4,863 million, representing a 5% increase YOY, compared with sales of NT\$ 4,615 million in 2017. Due to improvements in product portfolio, the gross margin was increased to 49.2%, and net profit attributed to the parent reached NT\$ 1.06 billion in 2018, up by 15% when compared to the 2017 figure which was the highest profit since the establishment of the company. The EPS had a figure of NT\$ 4.7. The Company's sales of MCUs was NT\$ 3.7 billion, among which, shipments of Touch MCUs exceeded 130 million dice (YoY +8%) and shipments of 32-bit MCUs reach more than 16 million dice (YoY +42%). This excellent performance resulted in the company gradually achieving wide recognition from global customers and multiple application markets in terms of product development, worldwide agents, product qualities and technical services.

An overview of the company's operation in 2018 is provided below subdivided into product development, sales & marketing and production management.

Product Development:

In 2018, the Company's product development was mainly focused on the integration of peripheral functions for wearable products, health care & measurement, smart homes, security products and other application products. A series of standard, ASSP and ASIC MCUs with our own HT 8-bit and ARM® Cortex™-M0+/M3 cores were also developed. In 2018, a total of 51 new types of MCUs and Peripheral ICs were launched, which included, Touch Advanced Anti-jamming Standard ASSP MCUs, 32-bit MCUs, Quick Chargers and Wireless Chargers, Health Care & Measurement specific MCUs (including Body Fat Scales, Glucose Meters, Kitchen Scales, Infrared Temperature Measurement, etc.), Smoke Detectors, Fire Alarms, Infrared Detector specific MCUs, Brushless DC Motors, Brush DC Motor Control specific MCUs, RF Sub-1G Emitter ICs and Display Driver ICs, etc. All of these combine to make the Holtek product line more complete for a wide range of different applications, maintaining strong revenue and growth momentum.

Sales & Marketing:

In 2018, revenue from China and Hong Kong based customers accounted for 76% of total sales showing an increase of 10% over the previous year. Due to the demands from the PC industry reducing, revenue from Taiwan based customers dropped and accounted for 10%, while revenue from other areas accounted for 14%, showing a reduction from the previous year due to the decline of European e-banking and business in central and South America. The global best-performing market still remains in China, which showed a 12% increase in revenue in 2018, mainly because China is the world's largest consumer electronics manufacturing area and the company's sales agents are quite close to local production which increases opportunities to rapidly and easily integrate into products.

Production Management:

In 2018, the shipments of ICs grew by about 5% within which shipments of MCUs increased over 8%. With wafer production capacity at its limit and with increased wafer costs, production management and cost controls became very important in 2018. Sales and production departments were required to work closely together to supply customer market demands in close coordination with the upstream and downstream manufacturers to meet customers' delivery requirements and maintain the stability of both supply and delivery.

An overview of Holtek's 2019 overall business is provided below:

In 2019, encountering the global economic growth slowdown, the US-China trade conflicts, Brexit difficulties and declining GDP growth in China, coupled with risks such as inflation and monetary constraints, the global economic forecast was generally lowered. As a result, the company remained cautious about 2019 developments. In this regard, the business team not only continued with new product planning and developments, application product markets and other aspects, but also actively strengthened its innovation to break through the impact of the above mentioned global economic challenges and fierce competition in China.

Regarding product development, Holtek's main areas were focused in health care measurement, RF wireless communications, security products, image recognition, electric vehicle and tool chargers, 32-bit MCUs, BLDC servo motors, domestic appliances, Internet of things (IoT) and NB IoT, intelligent toy application modules, etc. Additionally the company was also engaged in the development of highly functionally integrated MCUs and peripheral ICs while continuing to invest in research and development while also strengthening its development efforts in the area of sensor modules. All of this combined to strengthen the integrity and competitiveness of the company in a wide range of application products as well as in the important area of IoT applications.

In terms of marketing management, the Company actively promoted the application of existing MCUs and peripheral ICs in home appliances, home security, wearables, lithium battery handheld applications, automotive, instrumentation, etc. Promotional efforts were expanded in the European, American, Japanese, South Korean and other regional areas in addition to developing new markets and customers in emerging developing countries. The company's 2019 business focus was not only to strengthen localized sales promotion and technical services in India, but also to actively expand its market analysis and promotional operations in Southeast Asian countries including Vietnam, Thailand, Indonesia and other countries with outward looking economic policies. In addition to reducing the risk of being overly concentrated in the China regional areas, this strategy will permit an expansion of its global market share and continuously increase its overall revenues.

Regarding production in 2019, the Company's production and R&D departments will be actively reviewing their process technologies and contracted production abilities to reduce costs and improve its dispersed production ability. These improvements will help to offset the impact of rising wafer costs and improve product quality, strengthen reliability, improve production times in addition to reducing costs. In addition, the company has maintained close cooperation with wafer foundries, packaging and testing companies to enhance these long-term relationships. With good cost controls and maintaining sufficient foundry production capacity, the company will ensure that product costs and short lead times will be continuously improved.

In 2019, the Company will integrate more resources to launch new functions within more advanced MCU products that customers require. All personnel will adhere to a consistent, steady, positive and pragmatic working philosophy in implementing their professional working tasks. Even when facing the negative aspects of recent global economic developments and severe competition and challenges in the Chinese semiconductor industry, the company's management team will spare no efforts to fully implement all responsibilities in 2019, in order to continue to create business growth and forge ahead to implement its vision and goals for the 20 years ahead.

We sincerely thank all of Holtek's shareholders for their continuous support and encouragement. Our management team will continue to build on our already established firm foundation for sustained continued growth in its wide and varied MCU application markets well into the future to provide stable performance and profitability for all our shareholders.

Chairman: Wu, Chi-Yung

General Manager: Gau, Kuo-Tung

II. Company Profile

2.1 Date of Incorporation:

The Company was found on October 1st, 1998.

2.2 Company History

Year	Month	Milestones
1998	October	Established in Hsinchu Science Park with paid-in capital of NT\$400 million.
1999	March	Increased share capital of NT\$600 million up to a total paid-in capital of NT\$1,000 million.
2000	March	Released first 8-bit OTP MCU which conformed to industry specification.
	April	Established Hong Kong office for shipping and warehousing operations in the Hong Kong and other regional areas.
	May	Public offering approval from the Ministry of Finance Securities and Futures Commission. Obtained ISO 9001 Certification.
2001	March	Established Shanghai Office (Holtek Semiconductor (Shanghai) Inc.), for IC sales and provision of technical support and consulting services in China.
	May	Established North America Office (Holtek Semiconductor (USA) Inc.) for IC sales and provision of technical support and consulting services in North American.
2002	August	GTSM-Listed Stocks were approved by the Ministry of Finance Securities and Futures Commission.
	October	Established Suzhou Office (Holtek Semiconductor (Suzhou) Inc.), for IC sales and provision of technical support and consulting services in China.
	November	Official Over-the-Counter Stock Exchange registration.
2003	July	Obtained ISO 14001 Certification.
	August	Obtained SONY "Green Partner" Certification.
	September	Obtained the 12 th National Invention Prize.
2004	September	Official Share Listing.
	December	Global Semiconductor Association presented an Outstanding Financial Performance Award to Holtek.

Year	Month	Milestones
2005	June	Obtained "ASUS Green Partner" Certification.
	September	Approval from Ministry of Economic Affairs, R.O.C. to setup a Research and Development Centre in Taiwan.
	October	Obtained Samsung Electronics "ECO Partner" Certification.
	November	First Holtek MCU Innovation Competition held in Taiwan.
	December	Approval from Ministry of Economic Affairs, R.O.C. to setup headquarters in Taiwan.
2006	May	First Holtek MCU Innovation Competition held in China.
	November	Obtained OHSAS 18001 Occupational Health and Safety Assessment Series Certification.
2007	January	Released first 8-bit Flash MCU which conformed to industrial specifications.
	May	Obtained IECQ QC080000HSPM Certification.
	December	Holtek Wireless USB Audio MCU HT82A850R/HT82A851R won the Chinese Electronic Innovation Award.
2008	February	Established Xiamen Office (Holtek Semiconductor (Xiamen) Inc.), for IC and Microcontroller application tool technical support and consulting services in China.
2010	January	Released first integrated 8-bit Touch Key Flash MCU.
2011	May	Holtek Semiconductor (Shanghai) Inc. moved to Shenzhen and renamed its name to Holtek Semiconductor (Shenzhen) Inc., for IC sales and provision of technical support and consulting services in China.
	June	Released first 32-bit ARM® Cortex™-M3 Flash MCU.
	July	Approval from Ministry of Economic Affairs, R.O.C. to setup headquarters in Taiwan.
	October	Released Touch Key Flash MCU with LED/LCD Driver.
	December	Holtek's 8-bit MCU revenue ranked 18 th position globally.

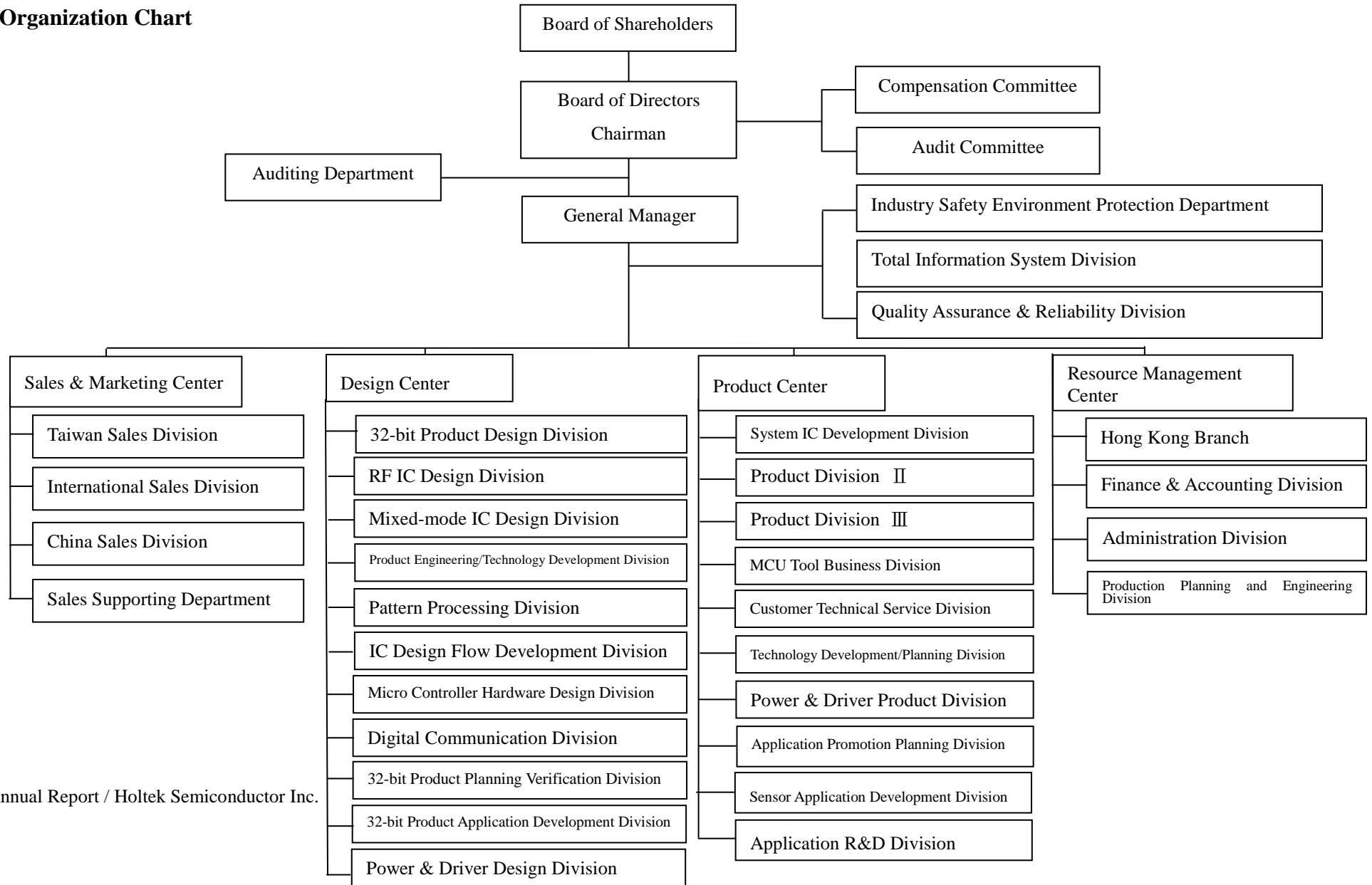
Year	Month	Milestones
2012	June	Holtek Semiconductor (Shenzhen) Inc. relocated and established subsidiary company in Songshan Lake, Dongguan. (Holtek Semiconductor (China) Inc.), for IC sales and provision of technical support and consulting services in China.
	December	Holtek 8-bit MCU revenue ranked 14 th position globally. New products in 2012: 1. Smoke Detector ASSP Flash MCU. 2. Power Bank ASSP Flash MCU.
2013	September	Established Holtek Semiconductor (China) Inc.-Beijing Office, for IC sales and provision of technical support and consulting services in Northern China. Established Holtek Semiconductor (China) Inc.-Hangzho Office, for IC sales and provision of technical support and consulting services in Eastern and Central China. Established Holtek Semiconductor (China) Inc.-Shunde Office, for IC sales and provision of technical support and consulting services in Shunde District in China.
	November December	Obtained Qi Spec Certification of Wireless Power Consortium (WPC). Holtek 8-bit MCU revenue ranked 11 th position globally. New products in 2013: 1. 20-bit A/D + LCD Flash MCU. 2. Blood Pressure Meter ASSP Flash MCU. 3. Glucose Meter ASSP Flash MCU.
2014	July	Released the World's Thinnest 6.5mm and 4.9mm Optical Fingerprint Identification Module. The World's Fifth Semiconductor Company with UL 60730-1 Software Certification - Household Appliances Security Mechanisms. Approval from Ministry of Economic Affairs, R.O.C. to setup headquarters in Taiwan.
	November	Wireless Charger MCU obtained Qi Spec Certification of Wireless Power Consortium (WPC). New products in 2014: 1. 1.8V~5.5V Flash MCU. 2. 24-bit A/D LCD Flash MCU. 3. Wireless Power Transmitter (Qi) ASSP Flash MCU. 4. Body Fat ASSP Flash MCU.

Year	Month	Milestones
2015	March October December	<p>Obtained the 3rd Taiwan Middlestand Award.</p> <p>Power Bank MCU obtained Qualcomm Quick Charge 2.0 Certification.</p> <p>Holtek to Run its 10th MCU Innovation Competition.</p> <p>New products in 2015 :</p> <ol style="list-style-type: none"> 1. The“world’s thinnest” (1mm) and ultra-high resolution optical hybrid fingerprint recognition sensor. 2. 32-bit ARM® Cortex™-M0+ Core Flash MCU. 3. Fast Charge Power Bank MCU.
2016	February	<p>Holtek signs Letter of Intent with Sony Mobile.</p> <p>New products in 2016 :</p> <ol style="list-style-type: none"> 1. 96-MHz High-performance 32-bit Arm® Cortex™-M3 Core Flash MCU. 2. BLE Transparent Transmission Module. 3. Sub-1GHz Tx/Rx SoC & IC.
2017	April July December	<p>Top 5% of the 3rd Corporate Governance Assessment Award of the TWSE.</p> <p>Approval from Ministry of Economic Affairs, R.O.C. to setup headquarters in Taiwan.</p> <p>Holtek 8-bit MCU revenue ranked 9th position globally.</p> <p>New products in 2017:</p> <ol style="list-style-type: none"> 1. Series of Arm® Cortex™-M3 MCU, M0+ 5V MCU and Bridge MCU. 2. A/D NFC™ MCU, Sub-1 GHz Super Regeneration Rx SoC MCU and LoRa® technology solutions. 3. USB Type-C PD ASSP MCU and 15W Wireless Power Tx ASSP MCU.
2018	December	<p>Holtek Semiconductor Inc. Wins Global Semiconductor Alliance (GSA)’s 2018 Best Financially Managed Semiconductor Company.</p>

III. Corporate Governance

3.1 Organization

3.1.1 Organization Chart



3.1.2 Major Corporate Functions

Department	Functions
Auditing Department	Responsible for internal auditing of the Company's business and administration.
Industry Safety Environment Protection Department	Responsible for industry safety, fire security, health care and environmental protection, etc.
Total Information System Division	Responsible for the information system development structure, information security management planning, network/hardware facility management, etc.
Quality Assurance & Reliability Division	Engaged in importing and exporting inspection, monitoring and evaluating of quality of outsourcing manufacturers, implementing quality control activities, instruments calibration, executing product reliability testing and providing customer complaint services, etc.
Taiwan Sales Division	Responsible for product promotion and sales, agent/third party/customer management and technical services in Taiwan.
International Sales Division	Responsible for technology introduction and intelligence collection, agent/third party/customer management, technical support, product promotion and overseas sales.
China Sales Division	Responsible for market development, market analysis, product marketing and agency management in China.
Sales Supporting Department	Responsible for product inventory management, business information analysis and product pricing and cost management.
32-bit Product Design Division	Responsible for the development and integration of relevant IC/IPs for 32-bit MCUs.
RF IC Design Division	Responsible for the development and integration of radio frequency receiver ICs.
Mixed-mode IC Design Division	(A) Technical evaluation and circuit design of analog ICs/IPs, Memory ICs/IPs and Digital Cell Libraries/IPs. (B) Circuit design of special I/Os and standardisation of ESD/Latch-up cells.
Product Engineering/Technology Development Division	Responsible for evaluation, management and verification of electrostatic protection and product engineering.

Department	Functions
Pattern Processing Division	<p>(A) Establishment of pattern processing automation environment and databases.</p> <p>(B) Mask outsourcing and Pattern layout execution.</p>
IC Design Flow Development Division	<p>(A) R&D environment integration and technical support of design tools, process and test engineering.</p> <p>(B) Coordinate the development and outsourcing of test technology and introduce testing processes into volume production and management.</p>
Micro Controller Hardware Design Division	Responsible for technology strategic planning and product design planning management for the development of MCU devices.
Digital Communication Division	Responsible for the development of digital signal processors, digital signal processing algorithm development, digital modulation/demodulation technology and basic frequency data packet processing/link layer controller and analysis and simulation of communication system architecture.
32-bit Product Planning Verification Division	Responsible for product planning, specification and function validation of 32-bit MCUs.
32-bit Product Application Development Division	Engaged in providing 32-bit MCU software platforms for firmware and application value-added services.
Power & Driver Design Division	Responsible for the design evaluation and circuit design of Power Management driver ICs.
System IC Development Division	Responsible for the establishment and development of technical systems and SoCs for image and audio signal processing.
Product Division II	Responsible for the planning, development and product promotion of 8-bit MCUs.
Product Division III	<p>(A) Coordinate the development technology for IC products, including standard MCUs, embedded MCUs, ASSP MCUs for specific products and ASIC related products related MCUs. Provide research on key technologies and the establishment of key IPs for technology-leading products.</p> <p>(B) Specification development, design development, product validation and software and hardware technical support for VFD/LED/LCD display controllers/driver ICs.</p>

Department	Functions
MCU Tool Business Division	Responsible for project technology development, new technology evaluation and implementation, tool development technology evaluation; customer service problem solving, implementing future continuous improvements; lab maintenance and components purchasing.
Customer Technical Service Division	Engaged in providing technical and product application integration for customer requirements.
Technology Development/Planning Division	<p>(A) Coordinate the development technology of IC products, including standard MCUs, embedded MCUs, ASSP MCUs for specific products. Includes analysis of product technical systems, development of IC market and technology development evaluation, IC specification and technology planning, IC application verification, product system verification, product application development, technical documents and follow-up product promotion technical services, etc.</p> <p>(B) Research in key technologies and establishment of key IPs for technology-leading products to upgrade product levels and competitiveness</p>
Power & Driver Product Division	Responsible for planning, design development and new product promotion for Power Management & Driver IC market.
Application Promotion Planning Division	<p>(A) Graphic design and maintenance of the Company's website.</p> <p>(B) Graphic design of promotional documentation and videos.</p> <p>(C) Compilation and translation of technical documents.</p> <p>(D) Industry-academic cooperation.</p>
Sensor Application Development Division	Responsible for the development of sensor products, application specific ASSP MCUs and key IPs.
Application R&D Division	Responsible for pre-research, development and implementation of new product application technologies and the establishment of related solutions.
Hong Kong Branch	Responsible for overseas shipping and warehousing for Hong Kong and other countries.
Finance & Accounting Division	Responsible for accounting and tax management, reinvestment management, fund management, customer credit management, import and export bonded management, stock affairs and investor relations, etc.

Department	Functions
Administration Division	Responsible for human resource management, general affairs and procurement management, legal and intellectual property management, etc.
Production Planning/Engineering Division	Engaged in coordination for the outsourcing of procurement and packaging/testing, warehousing/logistics management, tool manufacturing, packaging/testing engineering and other operations; Production and sales coordination, order delivery and order monitoring, distribution of goods and source allocation arrangements.

3.2 Directors and Management Team

3.2.1 Directors

As of March 31, 2019, Unit: Shares

Title	Nationality / Country of Origin	Name	Gender	Date Elected	Term (Years)	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Specific Person Shareholding		Experience (Education)	Other Positions	Executives or Directors who are spouses or within two degrees of kinship		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Chairman	R.O.C.	Wu Chi-Yung	Male	May 27, 2016	3	Sep. 7, 1998	7,665,809	339%	7,665,809	339%	2,745,598	121%	-	-	Bachelor of Electronic Engineering Department, Feng Chia University Chairman, Holtek Semiconductor Inc.	Chairman, Holtek Semiconductor Inc. Representative of a juridical person director, Holtek Semiconductor Holding (BVI) Ltd., Kingtek Semiconductor Holding (BVI) Ltd., BestComm RF Electronics Inc. and Holtek Semiconductor (Suzhou) Inc. Chairman, Holtek Semiconductor (Xiamen) Inc., Holtek Semiconductor (China) Inc., Holtek Investment Co., Ltd., BestComm RF Electronics Inc., Best Solution Technology Inc., and Best Modules Corp. Independent director, Greatek Electronics Inc.	-	-	-
Director	R.O.C.	Gau, Kuo-Tung	Male	May 27, 2016	3	Sep. 7, 1998	6,701,176	296%	6,701,176	296%	-	-	-	-	Bachelor of Electronic Engineering Department, Hwa Hsia University of Technology General	General Manager, Holtek Semiconductor Inc. Representative of a juridical person director, Holtek Semiconductor Holding (BVI) Ltd., Kingtek Semiconductor Holding (BVI) Ltd.,	-	-	-

Title	Nationality / Country of Origin	Name	Gender	Date Elected	Term (Years)	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Specific Person Shareholding		Experience (Education)	Other Positions	Executives or Directors who are spouses or within two degrees of kinship		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
															Manager, Holtek Semiconductor Inc.	Sigmos Holdings Ltd., Holtek Semiconductor (USA) Inc., Holtek Semiconductor (India) Private Limited, MCU Holdings Ltd., Holtek Semiconductor (China) Inc., Holtek Semiconductor (Xiamen) Inc., BestComm RF Electronics (Dongguan) Inc., Best Health Electronics (Dongguan) Corporation, Holtek Investment Co., Ltd., BestComm RF Electronics Inc., Best Solution Technology Inc., Signal Electronic Co. Ltd. and Gingy Technology Co. Chairman and General Manager, Holtek Semiconductor (Suzhou) Inc.			
Director	R.O.C.	Chang, Chi	Male	May 27, 2016	3	June 1, 2004	1,111,785	0.49%	1,111,785	0.49%	276,389	0.12%	-	-	Master of Electrical Engineering Department, National Cheng Kung University Executive Vice President of Design and Product Center, Holtek Semiconductor Inc.	Executive Vice President of Design and Product Center, Holtek Semiconductor Inc. Representative of a juridical person director, Holtek Semiconductor (Suzhou) Inc., Holtek Semiconductor (Xiamen) Inc. and Holtek Investment Co., Ltd.	-	-	-
Director	R.O.C.	Lin, Cheng-Fung	Male	May 27, 2016	3	Sep. 7, 1998	1,842,697	0.81%	1,842,697	0.81%	290,513	0.13%	-	-	Bachelor of Electronic Engineering	Vice President of President's Office, Holtek Semiconductor Inc.	-	-	-

Title	Nationality / Country of Origin	Name	Gender	Date Elected	Term (Years)	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Specific Person Shareholding		Experience (Education)	Other Positions	Executives or Directors who are spouses or within two degrees of kinship		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
															Department, Feng Chia University Vice President of President's Office, Holtek Semiconductor Inc.	Representative of a juridical person director, Sigmos Holdings Ltd., MCU Holdings Ltd., Best Health Electronics Corporation and Best Power Electronics Corporation			
Director	R.O.C.	Li, Pei-Ying	Female	May 27, 2016	3	June 15, 2010	1,013,093	0.45%	1,013,093	0.45%	630	0.00%	-	-	MBA, University of California, Riverside VP of Resource Management Center, Holtek Semiconductor Inc.	None	-	-	-
Director	R.O.C.	Wang, Jen-Chung	Male	May 27, 2016	3	June 1, 2004	2,137,209	0.94%	2,137,209	0.94%	1,500,000	0.66%	-	-	Master of Institute of Technology Management, Nation Tsing Hua University	Representative of a juridical person director, LiVE Technology Co., Ltd.	-	-	-
Independent Director	R.O.C.	Lu, Cheng-Yueh	Male	May 27, 2016	3	April 17, 2002	-	-	-	-	-	-	-	-	Master of Accounting Department, Soochow University CFA, LEE, LIN & CO.	CFA, LEE, LIN & CO. Independent Director, YUAN JEN Enterprises Co., Ltd.	-	-	-
Independent Director	R.O.C.	Hsing, Chih-Tien	Male	May 27, 2016	3	June 1, 2004	-	-	36,000	0.02%	-	-	-	-	Ph.D., Electrical Department, University of Florida Senior Vice President, Quanta Computer Inc. and President of	Independent Director, Browave Corporation and Innovision Flex Tech Corp.	-	-	-

Title	Nationality / Country of Origin	Name	Gender	Date Elected	Term (Years)	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Specific Person Shareholding		Experience (Education)	Other Positions	Executives or Directors who are spouses or within two degrees of kinship		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
															Quanta Research Institute				
Independent Director	R.O.C.	Kuo, Tai-Haur	Male	May 27, 2016	3	May 27, 2016	-	-	-	-	-	-	-	-	Ph.D., Electrical Engineering Department, University of Maryland Professor, Electrical Engineering Department, National Cheng Kung University	Professor, Electrical Engineering Department, National Cheng Kung University Independent Director, ChipMOS Technologies, Inc.	-	-	-

3.2.2 Professional Qualifications and Independence Analysis of Directors

Criteria Name	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence Criteria (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	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	
Wu Chi-Yung			✓				✓	✓	✓	✓	✓	✓	✓	1
Gau, Kuo-Tung			✓				✓	✓	✓	✓	✓	✓	✓	0
Chang, Chi			✓			✓	✓	✓	✓	✓	✓	✓	✓	0
Lin, Cheng-Fung			✓			✓	✓	✓	✓	✓	✓	✓	✓	0
Li, Pei-Ying		✓	✓			✓	✓	✓	✓	✓	✓	✓	✓	0
Wang, Jen-Chung			✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	0
Lu, Cheng-Yueh		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Hsing, Chih-Tien			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2
Kuo, Tai-Haur	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1

Note: Please tick the corresponding boxes that apply to the directors during the two years prior to being elected or during the term of office.

1. Not an employee of the Company or any of its affiliates.
2. Not a director 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 in which the Company holds, directly or indirectly, more than 50% 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 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 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, 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 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.

3.2.3 Management Team

As of March 31, 2019, Unit: Shares

Title	Nationality/ Country of Origin	Name	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Specific Person Shareholding		Experience (Education)	Other Positions	Managers who are Spouses or Two Degrees of Kinship		
					Shares	%	Shares	%	Shares	%			Title	Name	Relation
General Manager	R.O.C.	Gau, Kuo-Tung	Male	Oct. 01, 1998	6,701,176	2.96%	–	–	–	–	Bachelor of Electronic Engineering Department, Hwa Hsia University of Technology	Representative of a juridical person director, Holtek Semiconductor Holding (BVI) Ltd., Kingtek Semiconductor Holding (BVI) Ltd., Sigmos Holdings Ltd., Holtek Semiconductor (USA) Inc., Holtek Semiconductor (India) Private Limited, MCU Holdings Ltd., Holtek Semiconductor (China) Inc., Holtek Semiconductor (Xiamen) Inc., BestComm RF Electronics (Dongguan) Inc., Best Health Electronics (Dongguan) Corporation, Holtek Investment Co., Ltd., BestComm RF Electronics Inc., Best Solution Technology Inc., Signal Electronic Co. Ltd. and Gingy Technology Co. Chairman and General Manager, Holtek Semiconductor (Suzhou) Inc..	–	–	–
Executive VP of Design and Product Center	R.O.C.	Chang, Chi	Male	Dec. 11, 1998	1,111,785	0.49%	276,389	0.12%	–	–	Master of Electrical Engineering Department, National Cheng Kung University	Executive Vice President of Design and Product Center, Holtek Semiconductor Inc. Representative of a juridical person director, Holtek Semiconductor (Suzhou) Inc., Holtek Semiconductor (Xiamen) Inc. and Holtek Investment Co., Ltd.	–	–	–
VP of General	R.O.C.	Lin, Cheng-Fung	Male	Dec. 11, 1998	1,842,697	0.81%	290,513	0.13%	–	–	Bachelor of Electronic Engineering	Vice President of President's Office, Holtek	–	–	–

Title	Nationality/ Country of Origin	Name	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Specific Person Shareholding		Experience (Education)	Other Positions	Managers who are Spouses or Two Degrees of Kinship		
					Shares	%	Shares	%	Shares	%			Title	Name	Relation
Manager Office											Department, Feng Chia University	Semiconductor Inc. Representative of a juridical person director, Sigmos Holdings Ltd., MCU Holdings Ltd., Best Health Electronics Corporation and Best Power Electronics Corporation			
VP of Resource Manageme nt Center	R.O.C.	Li, Pei-Ying	Female	Jan. 06, 2003	1,013,093	0.45%	630	0.00%	-	-	MBA, University of California, Riverside	None	-	-	-
VP of Sales & Marketing Center	R.O.C.	Tsai, Jung-Tsung	Male	June 15, 2010	322,684	0.14%	241,580	0.11%	-	-	Bachelor of Automatic Control Engineering Department, Feng Chia University	Representative of a juridical person director, Holtek Semiconductor (USA) Inc., Santek Holdings Ltd., Santek Electronics (Xiamen) Ltd., Newtek Electronics Ltd., Newtek Electronics (Shenzhen) Ltd., New Wave Electronics Holding Ltd., Truetek Technology Ltd., Truetek Technology (Shanghai) Ltd., E-Micro Technology Holding Ltd., E-Micro Technology (Qingdao) Ltd., Forlc Electronics Holding Ltd., Forlc Electronics (Beijing) Ltd., Crown Rich Technology Holding Ltd., Crown Rich Technology (Shenzhen) Ltd., Quanding Technology Holding Ltd., Quanding Technology (Suzhou) Ltd., Tech Wave Ltd., Best Modules Corp., Signal Electronic Co. Ltd. and EST Technology Integration Corp. Representative of a juridical person director and General Manager, Holtek Semiconductor (China) Inc.	-	-	-

Title	Nationality/ Country of Origin	Name	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Specific Person Shareholding		Experience (Education)	Other Positions	Managers who are Spouses or Two Degrees of Kinship		
					Shares	%	Shares	%	Shares	%			Title	Name	Relation
												and Holtek Semiconductor (India) Private Limited.			
AVP of Quality Assurance & Reliability Division	R.O.C.	Wu, Shao-Nan	Male	June 23, 2003	103,845	0.05%	10,080	0.00%	-	-	Bachelor of Physics Department, Tung Hai University	None	-	-	-
AVP of Design Center	R.O.C.	Wu, Der-Chwan	Male	April 15, 2005	1,242,317	0.55%	-	-	-	-	Master of Electrical Engineering Department, National Cheng Kung University	None	-	-	-
AVP of Design Center	R.O.C.	Yu, Kuo-Cheng	Male	May 02, 2011	131,654	0.06%	29,839	0.01%	-	-	Bachelor of Electronic Engineering Department, Feng Chia University	None	-	-	-
AVP of Product Center	R.O.C.	Wang, Yuh-Dinhn	Male	July 01, 2009	393	0.00%	-	-	-	-	Master of Electrical Engineering Department, National Cheng Kung University	None	-	-	-
AVP of Product Center	R.O.C.	Wang, Min-Kun	Male	April 01, 2011	175,349	0.08%	-	-	-	-	Bachelor of Electronic Engineering Department, National Taiwan Institute of Technology	Representative of a juridical person director, BestComm RF Electronics (BVI) Inc., BestComm RF Electronics Inc., BestComm RF Electronics (Dongguan) Inc., ETEK technology Company Ltd., Bestway Electronics Inc., Bestway Electronics (Shenzhen) Inc., Fine Chip Electronics Inc., Fine Chip Electronics (Shanghai) Inc., Anchip Technology Corporation, Anchip Technology (Dongguan) Corporation, JXY Electronics Corporation, JXY Electronics (Shenzhen) Corporation, Best Health Electronics Corporation, Best Health Electronics (Dongguan) Corporation, Best Power	-	-	-

Title	Nationality/ Country of Origin	Name	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Specific Person Shareholding		Experience (Education)	Other Positions	Managers who are Spouses or Two Degrees of Kinship		
					Shares	%	Shares	%	Shares	%			Title	Name	Relation
												Electronics Corporation, Best Solution Electronic Inc. and Best Solution Technology Inc..			
AVP of Product Center	R.O.C.	Liu, Yuan-Ho	Male	Jan. 01, 2017	50,422	0.02%	10,000	0.00%	-	-	Bachelor of Electronic Engineering Department, National Taipei University of Technology	None	-	-	-
Head of Accounting Department	R.O.C.	Liao, Ming-Tung	Male	June 01, 2018	12,000	0.01%	-	-	-	-	Master of Accounting Department, National Chung Cheng University	Representative of a juridical person supervisor, Holtek Semiconductor (Suzhou) Inc., Holtek Semiconductor (China) Inc., Holtek Semiconductor (Xiamen) Inc., BestComm RF Electronics (Dongguan) Inc., Anchip Technology (Shenzhen) Corporation, Best Health Electronics (Dongguan) Corporation, Santek Electronics (Xiamen) Ltd., New Wave Electronics (Shenzhen) Ltd., Truetek Technology (Shanghai) Ltd., E-Micro Technology (Qingdao), ForIC Electronics (Beijing) Ltd., Quanding Technology (Suzhou) Ltd., Fine Chip Electronics (Shanghai) Inc., JXY Electronics (Shenzhen) Corporation, Holtek Investment Co., Ltd., BestComm RF Electronics Inc. and Best Modules Corp..	-	-	-
Head of Finance Department															

Note: Li, Pei-Ying, director of the 7th term of the Company has applied for retirement for personal plan with the effective date of March 29, 2019.

3.3 Remuneration of Directors, General Manager, and Vice Presidents

3.3.2 Remuneration of Directors (including independent directors)

Date: December 31, 2018; Unit: NT\$ thousands

Title	Name	Remuneration								Ratio of Total Remuneration (A+B+C+D) to Net Income (%) (Note 10)		Relevant Remuneration Received by Directors Who are Also Employees								Ratio of Total Remuneration (A+B+C+D+E+F+G) to Net Income (%) (Note 10)		Compensation Paid to Directors from an Invested Company Other than the Company's Subsidiary (Note 11)
		Base Compensation (A) (Note 2)		Severance Pay (B)		Bonus to Directors (C) (Note 3)		Allowances (D) (Note 4)				Salary, Bonuses, and Allowances (E) (Note 5)		Severance Pay (F)		Profit Sharing-Employee Bonus (G) (Note 6)						
		The company	Companies in the consolidated financial statements (Note 7)	The company	Companies in the consolidated financial statements (Note 7)	The company	Companies in the consolidated financial statements (Note 7)	The company	Companies in the consolidated financial statements (Note 7)	The company	Companies in the consolidated financial statements (Note 7)	The company	Companies in the consolidated financial statements (Note 7)	The company	Companies in the consolidated financial statements (Note 7)	The company		Companies in the consolidated financial statements (Note 7)		The company	Companies in the consolidated financial statements (Note 7)	
																Cash	Stock	Cash	Stock			
Chairman	Wu Chi-Yung	0	0	0	0	14,248	14,248	0	0	1.34%	1.34%	15,648	15,648	0	0	6,810	0	6,810	0	3.45%	3.45%	0
Director	Gau, Kuo-Tung																					
Director	Chang, Chi																					
Director	Lin, Cheng-Fung																					
Director	Li, Pei-Ying																					
Director	Wang, Jen-Chung																					
Independent Director	Lu, Cheng-Yueh																					
Independent Director	Hsing, Chih-Tien																					
Independent Director	Kuo, Tai-Haur																					

Note: Except for the disclosures above, remuneration paid to the Company's directors for their services to all the companies listed in the financial statements (e.g., serving as a non-employee adviser): None.

Range of Remuneration	Name of Directors			
	Total of (A+B+C+D)		Total of (A+B+C+D+E+F+G)	
	The company (Note 8)	Companies in the consolidated financial statements (Note 9)	The company (Note 8)	Companies in the consolidated financial statements (Note 9)
Under NT\$ 2,000,000	Wu, Chi-Yung, Gau, Kuo-Tung, Chang, Chi, Lin, Cheng-Fung, Li, Pei-Ying, Wang, Jen-Chung, Lu, Cheng-Yueh, Hsing, Chih-Tien, Kuo, Tai-Haur	Wu, Chi-Yung, Gau, Kuo-Tung, Chang, Chi, Lin, Cheng-Fung, Li, Pei-Ying, Wang, Jen-Chung, Lu, Cheng-Yueh, Hsing, Chih-Tien, Kuo, Tai-Haur	Wang, Jen-Chung, Lu, Cheng-Yueh, Hsing, Chih-Tien, Kuo, Tai-Haur	Wang, Jen-Chung, Lu, Cheng-Yueh, Hsing, Chih-Tien, Kuo, Tai-Haur
NT\$2,000,001 ~ NT\$5,000,000	—	—	—	—
NT\$5,000,001 ~ NT\$10,000,000	—	—	Wu, Chi-Yung, Gau, Kuo-Tung, Chang, Chi, Lin, Cheng-Fung, Li, Pei-Ying	Wu, Chi-Yung, Gau, Kuo-Tung, Chang, Chi, Lin, Cheng-Fung, Li, Pei-Ying
NT\$10,000,001 ~ NT\$15,000,000	—	—	—	—
NT\$15,000,001 ~ NT\$30,000,000	—	—	—	—
NT\$30,000,001 ~ NT\$50,000,000	—	—	—	—
NT\$50,000,001 ~ NT\$100,000,000	—	—	—	—
Over NT\$100,000,000	—	—	—	—
Total	9	9	9	9

- Note 1: Names of directors shall be listed separately (both the name of the institution and its representative shall be listed for an institutional shareholder) and individual payments made shall be summarized and disclosed accordingly.
- Note 2: The remunerations paid to directors in the latest year (including salaries, additional pay, service pay, various prizes, rewards, etc.).
- Note 3: The value of remunerations approved to be assigned to directors by the Board of Directors in the most recent year.
- Note 4: This is the expenses incurred by directors over the past years from carrying out related tasks, including transportation, special expenditure, various types of allowances, dormitory, and company cars, among other supplies in kind).
- Note 5: Salaries, additional pay, service pay, various prizes, rewards, transportation, special expenditure, various allowances, dormitory, cars, and other actual items that are claimed by directors and employees (including part-time general managers, vice presidents, other managers and employees) in the latest year.
- Note 6: This means that directors and employees (including part-time general managers, vice presidents, other managers, and employees) having claimed employee remunerations (including shares and cash) shall disclose employee remunerations distributed through the Board of Directors in the most recent year. If it is impossible to estimate the value planned to be distributed this year, follow the actual value distributed last year and calculated proportionally and Exhibit 1-3 shall be completed.
- Note 7: The total value of remunerations paid to directors of the Company by all companies in the Consolidated Report (including the Company) shall be disclosed.
- Note 8: For the total value of various remunerations paid to each director by the Company, disclose the name of the director in the respective bracket.
- Note 9: For the total value of various remunerations paid to each director of the Company by all companies (including the Company) in the Consolidated Report, disclose the name of the director in the respective bracket.
- Note 10: Net income is the value in the latest year. When the International Financial Reporting Standards are adopted, net income is the value indicated in the entity or individual financial report from the most recent year.
- Note 11: The value of related remunerations claimed by directors of the Company from re-invested companies other than subsidiaries shall be specified in this column. Remunerations are the compensation, rewards (including rewards for employees and directors) and operational expenditures claimed by directors of the Company who serve as directors or managers at an invested company other than the Company's subsidiary.

3.3.2 Remuneration of the General Manager and Vice President

Date: December 31, 2018; Unit: NT\$ thousands

Title	Name	Salary(A) (Note 2)		Severance Pay (B)		Bonuses and Allowances (C) (Note 3)		Profit Sharing- Employee Bonus (D) (Note 4)				Ratio of total Remuneration (A+B+C+D) to Net Income (%) (Note 8)		Compensation paid to the General Manager and Vice President from an Invested Company Other Than the Company's Subsidiary (Note 9)
		The company	Companies in the consolidated financial statements (Note 5)	The company	Companies in the consolidated financial statements (Note 5)	The company	Companies in the consolidated financial statements (Note 5)	The company		Companies in the consolidated financial statements (Note 5)		The company	Companies in the consolidated financial statements (Note 5)	
								Cash	Stock	Cash	Stock			
Chairman	Wu Chi-Yung	13,173	13,173	0	0	5,683	5,683	8,399	0	8,399	0	2.56%	2.56%	0
General Manager	Gau, Kuo-Tung													
Vice President	Chang, Chi													
Vice President	Lin, Cheng-Fung													
Vice President	Li, Pei-Ying													
Vice President	Tsai, Jung-Tsung													

Range of Remuneration	Name of General Manager and Vice President	
	The company (Note 6)	Companies in the consolidated financial statements (Note 7)
Under NT\$ 2,000,000	—	—
NT\$2,000,001 ~ NT\$5,000,000	Wu Chi-Yung, Gau, Kuo-Tung, Lin, Cheng-Fung, Tsai, Jung-Tsung	Wu Chi-Yung, Gau, Kuo-Tung, Lin, Cheng-Fung, Tsai, Jung-Tsung
NT\$5,000,001 ~ NT\$10,000,000	Chang, Chi, Li, Pei-Ying	Chang, Chi, Li, Pei-Ying
NT\$10,000,001 ~ NT\$15,000,000	—	—
NT\$15,000,001 ~ NT\$30,000,000	—	—
NT\$30,000,001 ~ NT\$50,000,000	—	—
NT\$50,000,001 ~ NT\$100,000,000	—	—
Over NT\$100,000,000	—	—
Total	6	6

Note 1: Names of general manager and vice president shall be listed separately and individual payments made shall be disclosed through a summary.

Note 2: The remunerations paid to general manager and vice president in the latest year (including salaries, additional pay, service pay, various prizes, rewards, etc.).

Note 3: This is the expenses incurred by general manager and vice president over the past years from carrying out related tasks, including transportation, special expenditure, various types of allowances, dormitory, and company cars, among other supplies in kind).

Note 4: This means that general manager and vice president having claimed employee remunerations (including shares and cash) shall disclose employee remunerations distributed through the Board of Directors in the most recent year. If it is impossible to estimate the value planned to be distributed this year, follow the actual value distributed last year and calculated proportionally and Exhibit 1-3 shall be completed.

Note 5: The total value of remunerations paid to general manager and vice president of the Company by all companies in the Consolidated Report (including the Company) shall be disclosed.

Note 6: For the total value of various remunerations paid to general manager and vice president by the Company, disclose the name of the general manager and vice president in the respective bracket.

Note 7: For the total value of various remunerations paid to general manager and vice president of the Company by all companies (including the Company) in the Consolidated Report, disclose the name of the general manager and vice president in the respective bracket.

- Note 8: Net income is the value in the latest year. When the International Financial Reporting Standards are adopted, net income is the value indicated in the entity or individual financial report from the most recent year.
- Note 9: The value of related remunerations claimed by general manager and vice president of the Company from reinvested businesses other than subsidiaries shall be specified in this column. Remunerations are the compensation, rewards (including rewards for employees and directors) and operational expenditures claimed by general manager and vice president of the Company who serve as directors or managers at an invested company other than the Company's subsidiary.

3.3.3 Names and Distribution of Managers Assigned with Employee Rewards

As of December 31, 2018; Unit: NT\$ thousands

	Title	Name	Employee Bonus - in Stock (Fair Market Value)	Employee Bonus - in Cash	Total	Ratio of Total Amount to Net Income (%)
Managers	Chairman	Wu Chi-Yung	0	15,963	15,963	1.50%
	General Manager	Gau, Kuo-Tung				
	Executive VP of Design and Product Center	Chang, Chi				
	VP of President Office	Lin, Cheng-Fung				
	VP of Resource Management Center	Li, Pei-Ying				
	VP of Sales & Marketing Center	Tsai, Jung-Tsung				
	AVP of Quality Assurance & Reliability Division	Wu, Shao-Nan				
	AVP of Design Center	Wu, Der-Chwan				
	AVP of Design Center	Yu, Kuo-Cheng				
	AVP of Product Center	Wang, Yuh-Dinhn				
	AVP of Product Center	Wang, Min-Kun				
	AVP of Product Center	Liu, Yuan-Ho				
	Head of Accounting Department	Liao, Ming-Tung				

Note 1: Employee remunerations (including stock and cash) distributed to managers approved by the Board of Directors in recent years. If it is impossible to estimate the value planned to be distributed this year, follow the actual value distributed last year and calculate proportionally. After-tax pure earnings are those in the latest year. When the International Financial Reporting Standards are adopted, Net Income is the value indicated in the entity or individual financial statements from the most recent year.

Note 2: For the applicability of managers, follow the Tai-Cai-Zheng-San No. 0920001301 letter dated March 27, 2003.

- (1) General Managers and people of equivalent ranking
- (2) Vice Presidents and people of equivalent ranking

- (3) Assistant Vice Presidents and people of equivalent ranking
- (4) Head of Finance Department
- (5) Head of Accounting Department
- (6) Other people handling corporate affairs and signature rights

3.3.4 Compare and Describe the Analysis of Ratios of Total Remunerations Paid to Directors, General Manager, and Vice Presidents of the Company for the past two years by the Company

Title	Ratio of total remuneration paid to directors, general manager and vice presidents to net income (%)	
	2017	2018
Directors	3.71%	3.45%
General Manager and Vice Presidents	2.65%	2.56%

1. Criteria for paying remunerations to directors of the Company and procedures for determining remuneration:

Pursuant to Article 24 of the Company's "Article of Incorporation", which stipulate that "When allocating the net profits for each fiscal year, the Company shall distribute 5~15% of profit of the current year distributable as employees' compensation and no more than 1.5% of profit of the current year distributable as remuneration of directors. However, the Company shall have reserved a sufficient amount to offset its accumulated losses."

The Compensation Committee reviews the distribution of director's remuneration within the said amount in accordance with the individual performance and then submits it to the Board of Directors for approval.

2. Criteria for paying remunerations to general manager and vice presidents and procedures for determining remuneration:

- (1) The Company has conducted the "Rules and Procedures for Performance Assessments", the remunerations of general manager and vice presidents are appraised by the Administration Division in accordance with the Company's policy and submitted to the general manager room meeting for reviewing and then presented to the Compensation Committee for assessment and submitted to the Board of Director for approval. The remuneration is measured based on the business content, working experiences, personal achievements, contribution made to the business operation regulated in the "Rules and Procedures for Performance Assessments", which especially subject to personal achievements and contributions.

- (2) The annual distribution of employee remuneration is regulated in the Company's "Article of Incorporation". The Administration Division shall prepare the distribution and submit to the general manager room meeting for reviewing in accordance to the "Rules and Procedures for Performance Assessments", which refers to factors of business content, working experiences, personal achievements, contribution made to the business operation, which especially subject to personal achievements and contributions to the Company.

- (3) The remunerations of the general manager, vice president and assistant vice presidents mentioned above shall be approved at the meeting of the general manager office, and shall be submitted to the Compensation Committee for discussion and then submit to the Board of Directors for approval.

3. Correlation between remuneration payment and business performance and future risks:

- (1) Directors' remuneration shall be based on their positions in the Company and the value of their participation in and contribution to the Company's operation.
- (2) Remuneration of the general manager and vice presidents shall be based on the position, contribution to the Company and reference to the standard of the industry, and shall be handled in accordance with the “Rules and Procedures for Performance Assessments”.

To minimize the possibility and relevance of future risks that need to be considered in the performance evaluation of the board of directors in accordance with the Company's “Board of Directors' Self-Assessment of Performance”, and to review the remuneration system according to the actual operating conditions and relevant laws and regulations at any time, so as to achieve the management balance between risks and rewards.

3.4 Implementation of Corporate Governance

3.4.1 Board of Directors

The Board of Directors held 6 sessions in 2018. The attendance of the directors is shown in the following table:

Title	Name	Attendance in Person	By Proxy	Attendance Rate (%)	Remarks
Chairman	Wu Chi-Yung	6	0	100%	
Director	Gau, Kuo-Tung	6	0	100%	
Director	Chang, Chi	5	1	83%	
Director	Lin, Cheng-Fung	6	0	100%	
Director	Li, Pei-Ying	6	0	100%	
Director	Wang, Jen-Chung	5	1	83%	
Independent Director	Lu, Cheng-Yueh	6	0	100%	
Independent Director	Hsing, Chih-Tien	5	1	83%	
Independent Director	Kuo, Tai-Haur	6	0	100%	

Other mentionable items:

1. Meetings of the Board of Directors, if in accordance with the following conditions, shall clearly state the date of the Board of Directors' Meeting, the term number, the contents of the proposals, and opinions from all Independent Directors and the follow-up procedures of the Company:

- (1) Matters listed in Article 14-3 of the Securities and Exchange Act:

Date	Resolution	Independent directors' opinions and the Company's Follow-up
2018.01.29 The 7 th Term, the 11 th Meeting	<ol style="list-style-type: none"> 1. Approved the allocation of 2017 employee bonuses and directors' remuneration. 2. Approved the performance assessments and remuneration of directors and managers. 	There is no objection or reservation expressed by any independent director in all six Board of Directors Meetings and major resolutions have been fully passed by the Board of Directors.
2018.03.01 The 7 th Term, the 12 th Meeting	<ol style="list-style-type: none"> 1. Approved the permit of directors' engagement in competitive conducts. 2. Approved the statement of Internal Control System. 3. Approved the assessment report of CPA's independence and competence. 	

Date	Resolution	Independent directors' opinions and the Company's Follow-up
2018.04.30 The 7 th Term, the 13 th Meeting	<ol style="list-style-type: none"> 1. Approved the investment of MCU Holdings Ltd., the Company's subsidiary, to Best Power Electronics Corporation. 2. Approved the performance assessments and remuneration of directors and managers. 	There is no objection or reservation expressed by any independent director in all six Board of Directors Meetings and major resolutions have been fully passed by the Board of Directors.
2018.05.28 The 7 th Term, the 14 th Meeting	<ol style="list-style-type: none"> 1. Approved the assignment of the head of accounting department. 2. Approved the assignment of head of the auditing department. 3. Approved the issuance of short-term currency exchange credit of Bank Sinopac Hsinchu Branch. 4. Approved the performance assessments and remuneration of directors and managers. 	
2018.07.30 The 7 th Term, the 15 th Meeting	<ol style="list-style-type: none"> 1. Approved the withdrawal of investment in Gingy Technology Co., Ltd.. 2. Approved the permit of directors' engagement in competitive conducts. 3. Approved the performance assessments and remuneration of directors and managers. 	
2018.10.29 The 7 th Term, the 16 th Meeting	<ol style="list-style-type: none"> 1. Approved the purchase of the directors and managers liability insurance. 2. Approved the 2019 audit operational risk assessment reports and annual audit plans. 3. Approved the appointment of representative of a juridical person director and general manager of re-invested companies and the permit of its directors' engagement in competitive conducts. 4. Approved the appointment of representative of a juridical person director of re-invested companies and permit of its managers' engagement in competitive conducts. 5. Approved the performance assessments and remuneration of directors and managers. 	

- (2) Written or otherwise recorded resolutions on which an independent director had a dissenting opinion or qualified opinion: None.
- 2. If there are directors' avoidance of motions in conflict of interest, the directors' names, contents of motion, causes for avoidance and voting should be specified: None
- 3. Goals to enhance the Board's operations: The Company has conducted the "Rules and Procedures of Board of Directors' Meetings" and "Board of Directors Self-Assessment of Performance". The Compensation Committee has been established on October 25, 2011 and Audit Committee has been established on May 27, 2016 to enhance operational effectiveness of the Board of Directors.

3.4.2 Audit Committee

The Audit Committee was held by 3 independent directors and its major duty is that assisting the Board of Directors to execute and supervise their duties engaging in the tasks in accordance of the Company Act, the Securities and Exchange Act and any other relevant regulations or laws.

Major resolutions should be reviewed by the Audit committee includes: adoption or amendment of the internal control system, auditing and accounting policies and procedures, matters bearing on the personal interest of a director, material asset or derivatives transaction, material monetary loan, endorsement, or provision of guarantee, the offering or issuance of any equity-type securities, the hiring, discharge, or compensation of an attesting CPA, the appointment or discharge of the head of finance, accounting or auditing department, the Company's financial statements, the Company's merger and acquisition (M&A) matters, and etc.

The Audit Committee held 6 sessions in 2018. The attendance of the independent directors is shown in the following table:

Title	Name	Attendance in Person	By Proxy	Attendance Rate (%)	Remarks
Independent Director	Lu, Cheng-Yueh	6	0	100%	
Independent Director	Hsing, Chih-Tien	5	1	83%	
Independent Director	Kuo, Tai-Haur	6	0	100%	

Other mentionable items:

1. If the operations of the Audit Committee have any of the following circumstances, the Company should state the date of the Board of Directors' meeting, session, the content of the proposal, the resolution of the Audit Committee, and the Company's response toward the Audit Committee's opinions:

- (1) Matters listed in Article 14-3 of the Securities and Exchange Act:

Date	Resolution	Independent directors' opinions and the Company's Follow-up
2018.01.29 The 7 th Term, the 11 th Meeting	<ol style="list-style-type: none"> 1. The internal audit report for the fourth quarter of 2017. 2. The allocation of 2017 employee bonuses and directors' remuneration. 3. The 2017 consolidated and individual financial statements. 	There is no objection or reservation expressed by any Independent Director in all six Board of Directors Meetings and major resolutions have been fully passed by the Audit Committee member and the Board of Directors.

	Date	Resolution	Independent directors' opinions and the Company's Follow-up
	2018.03.01 The 7 th Term, the 12 th Meeting	<ol style="list-style-type: none"> 1. The internal audit report for January, 2018. 2. Approved the 2017 business report. 3. Approved the 2017 earnings distribution. 4. Approved the cash distribution from legal reserve. 5. Approved the statement of Internal Control System. 6. Approved the assessment report of CPA's independence and competence. 	There is no objection or reservation expressed by any independent director in all six Board of Directors Meetings and major resolutions have been fully passed by the Audit Committee members and the Board of Directors.
	2018.04.30 The 7 th Term, the 13 th Meeting	<ol style="list-style-type: none"> 1. The internal audit report for February to March, 2018. 2. Approved the consolidated financial statements for the first quarter of 2018. 3. Approved the investment of MCU Holdings Ltd., the Company's subsidiary, to Best Power Electronics Corporation. 	
	2018.05.28 The 7 th Term, the 14 th Meeting	<ol style="list-style-type: none"> 1. The internal audit report for April, 2018. 2. Approved the assignment of the head of accounting department. 3. Approved the assignment of the head of auditing department. 4. Approved the issuance of short-term currency exchange credit of Bank Sinopac Hsinchu Branch. 	
	2018.07.30 The 7 th Term, the 15 th Meeting	<ol style="list-style-type: none"> 1. The internal audit report for May to June, 2018. 2. Approved the consolidated financial statements for the second quarter of 2018. 3. Approved the record date and cash dividend distribution date for 2017 for common share dividends. 4. Approved the distribution date of cash dividends from legal reserve. 5. Approved the withdrawal of investment in Gingy Technology Co., Ltd.. 6. Approved the permit of directors' engagement in competitive conducts. 	

Date	Resolution	Independent directors' opinions and the Company's Follow-up
2018.10.29 The 7 th Term, the 16 th Meeting	<ol style="list-style-type: none"> 1. The internal audit report for the third quarter of 2018. 2. Approved the consolidated financial statements for the third quarter of 2018. 3. Approved the purchase of the directors and managers liability insurance. 4. Approved the 2019 audit operational risk assessment reports and annual audit plans. 5. Approved the 2019 business plan. 6. Approved the appointment of representative of a juridical person director and general manager of re-invested companies and the permit of its directors' engagement in competitive conducts. 7. Approved the appointment of representative of a juridical person director of re-invested companies and permit of its managers' engagement in competitive conducts. 	There is no objection or reservation expressed by any independent director in all six Board of Directors Meetings and major resolutions have been fully passed by the Audit Committee members and the Board of Directors.

(2) In addition to the above matters, other resolutions passed by two-thirds of all the directors but yet to be approved by the Audit Committee: None.

2. If there are independent directors' avoidance of motions in conflict of interest, the directors' names, contents of motion, causes for avoidance and voting should be specified: None

3. Communications between the independent directors, the head of the auditing department and CPAs:

(1) The head of auditing department regularly reports to the Audit Committee and the Board of Directors on audit operations and the status of implementation at the Board of Directors' Meeting. The internal audit report was delivered to the independent directors for review every month. All discussion items will be declared in the minutes of the Board of Directors' Meeting. The independent directors and head of auditing department maintain effective communication with one another.

(2) While processing the review of the annual financial statements at the Audit Committee's and the Board of Directors' Meeting, the CPAs shall be present for reporting the audit results of financial report, material asset valuation and its accounting estimates. CPAs shall discuss and communicate with directors about the issues related to financial statements.

3.4.3 Taiwan Corporate Governance Implementation as Required by Taiwan Financial Supervisory Commission

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Summary	
1. Does the Company follow the “Taiwan Corporate Governance Implementation” to establish and disclose its corporate governance practices?	✓		The Company conducts the “The Best Practice Principles of Ethical Corporate Management” which has been disclosed and posted on the Company’s website and TWSE’s Market Observation Post System.	None
2. Shareholding Structure & Shareholders’ Rights				
(1) Does the Company have Internal Operation Procedures for handling shareholders’ suggestions, concerns, disputes and litigation matters. If yes, have these procedures been implemented accordingly?	✓		(1) The Company conducts "Rules and Procedures of Board of Directors Meetings" and has a spokesperson who designates appropriate personnel engaged in the business of investor relations and legal issues dealing with shareholder suggestions, doubts, disputes and lawsuits. The contact information has been disclosed on the Holtek website.	None
(2) Does the Company possess a list of major shareholders and beneficial owners of these major shareholders?	✓		(2) The Company controls the shareholding of directors, managers and shareholders, who hold more than 10% of the outstanding shares.	None
(3) Has the Company built and executed a risk management system and “firewall” between the Company and its affiliates?	✓		(3) The Company conducts "Regulations of Supervision and Management of Subsidiaries " and "Regulations on the Transaction Processing of Related Parties, Specific Companies and Group Enterprises" regulating the establishment and improvement of the financial, business and accounting management system, the implementation of requested control mechanism and the establishment of appropriate firewall mechanisms.	None
(4) Has the Company established internal	✓		(4) The Company conducts "Best Practice Principles of Ethical	None

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Summary	
rules prohibiting insider trading on undisclosed information?			Corporate Management", the "Codes of Ethical Conduct of Directors' and Managers" and the "Operating Procedures for Handling Internal Material Information and Preventing Insider Trading" to prohibit insiders from trading on undisclosed information. The Company has also strongly advocated these rules in order to prevent any violations.	
<p>3. Composition and Responsibilities of the Board of Directors</p> <p>(1) Has the Company established a diversification policy for the composition of its Board of Directors and has it been implemented accordingly?</p>	✓	(1)	<p>A. The Article 20 of the "Principles for Corporate Governance" of the Company stipulates the diversification policy of the Board of Directors' members.</p> <p>B. The Company has nine directors on the Board of Directors who are responsible for operation and supervision. Between them, one of the seats is for a woman director, three seats for independent directors and one seat for an external individual director. Each director has a suitable professional background, including management administration, leadership and decision making, knowledge of industry, finance and accounts, legal issues, etc. The composition of its Board of Directors conforms to the diversification policy.</p>	None

Assessment Item	Implementation Status						Non-implementation and Its Reason(s)			
	Yes	No	Summary							
(2) Other than the Compensation Committee and the Audit Committee which are required by law, does the Company plan to set up other Board committees?	✓		C. The professional competence of each director is as follows:					None		
			<div><div>Diversified Core Items</div><div>Name</div></div>	Gender	Manag ement Admini stration	Leaders hip and decisio n making	Knowle dge of industr y		Finance and account ing	Legal
			Wu, Chi-Yung	Male	V	V	V			
			Gau, Kuo-Tung	Male	V	V	V			V
			Chang, Chih	Male	V	V	V			
			Lin, Cheng-Fung	Male	V	V	V			
			Li, Pei-Ying	Female	V	V	V		V	V
			Wang, Jen-Chung	Male	V	V	V		V	V
			Lu, Cheng-Yueh	Male	V	V			V	V
			Hsing, Chih-Tien	Male	V	V	V			
			Kuo, Tai-Haur	Male	V	V	V			
			(2) The Company has set up a Compensation Committee and an Audit Committee. In the future, the Company will decide whether to set up other functional committees according to regulations and operational needs.							

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Summary	
(3) Has the Company established a methodology for evaluating the performance of its Board of Directors, on an annual basis?	✓		<p>(3)</p> <p>A. The "Board of Directors' Self-assessment of Performance" was approved by the Company Board of Directors in January, 2016. The performance assessment of the Board of Directors and the functional committees shall include at least the following five aspects: (1) The degree of participation in the operation of the Company; (2) Improving the decision-making quality of the Board of Directors; (3) Composition and structure of the Board of Directors; (4) Appointment and continuous education of directors and (5) Internal control.</p> <p>B. Collecting relevant information of the Board of Directors, the Audit Committee and the Compensation Committee at year end. After a return of questionnaires, the evaluation index scores will be formulated and reported to the Board of Directors.</p> <p>C. The Company has completed a performance assessment of the Board of Directors, the Audit Committee and the Compensation Committee in January, 2019. After the assessment, the functions of the Board of Directors, the Audit Committee and the Compensation Committee were found to work well during 2018.</p>	None
(4) Does the Company regularly evaluate its external auditors' independence?	✓		<p>(4)</p> <p>A. The Company shall review the professional qualification and independence of independent certified public accountants (CPA) regularly every year. The statement of Independence from Auditors by KPMG was subject to approval by the Audit Committee and Board of Directors in March, 2018.</p>	None

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Summary	
			B. The evaluation, under the auspices of the Audit Committee and the Board of Directors, was done according to 10 criteria for independence. No violation was found. A relevant certification fee has been paid to two independent certified public accountants (CPA) by the Company. They have never serve as directors, managers or ones who engage in significant positions. The most recent evaluation of their independence to ensure that they are non-interest parties and that their independence is intact, complies with the requirements for independence and competency.	
4. Has the Company established a full- (or part-) time corporate governance unit or personnel to be in charge of corporate governance affairs (including but not limited to furnish information required for business execution by directors, handle matters relating to board meetings and shareholders' meetings according to laws, handle corporate registration and amendment registration, record minutes of board meetings and shareholders meetings, etc.)?	✓		<p>The Resource Management Center is responsible for corporate governance related affairs of the Company whose main responsibility is to provide the information required by the directors for business management and the latest legal development related to the operation of the Company.</p> <p>Business performance in 2018 is as follows:</p> <p>A. Handling matters related to the meeting of the Board of Directors and shareholders.</p> <p>B. Preparing the minutes of the Board of Directors and shareholders' meeting.</p> <p>C. Assisting the directors with continuing education.</p> <p>D. Providing the information required by the directors for the execution of the business.</p> <p>E. Operating company registration and change registration.</p>	None
5. Has the Company established a means of	✓		The Company designates appropriate personnel engaged in the	None

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Summary	
communicating with its Stakeholders (including but not limited to shareholders, employees, customers, suppliers, etc.) or created a Stakeholders Section on its Company website? Does the Company respond to stakeholders' questions on corporate responsibilities?			business of investor relations, providing information to Stakeholders, including shareholders, customers, suppliers, and investors. The communication channels and Stakeholders Concerns can be found on the Holtek website in response to stakeholders' issues. (Refer to the annual report (note 1) on page 46). The status of implementation shall report to the Board of Directors at least once a year.	
6. Has the Company appointed a professional registrar for its Shareholders' Meetings?	✓		The Company has appointed the Transfer Agency Department of SinoPac Securities Corporation to deal with shareholder affairs.	None
7. Information Disclosure				
(1) Has the Company established a corporate website to disclose information regarding its financial, business and corporate governance status?	✓		(1) The Company has set up a Chinese/English website (www.holtek.com.tw) to disclose information regarding regularly disclosed financial business and corporate governance information.	None
(2) Does the Company use other information disclosure channels (e.g. maintaining an English-language website, designating staff to handle information collection and disclosure, appointing spokespersons, webcasting investor conference etc.)?			(2) A. The Company has designated appropriate personnel engaged in the collection and disclosure of corporate information and has a spokesperson to regularly disclose financial business and corporate governance information. B. The Company holds regular quarterly investor conferences and discloses publicly available materials on the Holtek website and TWSE's Market Observation Post System.	None

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Summary	
8. Has the Company disclosed other information to facilitate a better understanding of its corporate governance practices (e.g. including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies and purchasing insurance for directors)?	✓		<p>A. Employee rights and employee care: In accordance with the regulations of labor law to guarantee employees' rights, the Company conducts related labor law and regulations and holds labor management meetings regularly for effective communication. The Company has set up an Employee Welfare Committee to hold regular activities, including festival vouchers, travel activities, club activities, employee health examination and group insurance, etc.</p> <p>B. Investor relations: The Company has a spokesperson system designating appropriate personnel engaging in investor relations to deal with all matters concerning stakeholders' rights and concerns.</p> <p>C. Supplier relationship: The Company pays attention to suppliers who conform to international environmental protection regulations and labor safety and health standards, to meet the commitment of establishing a green supply chain.</p> <p>D. Rights of stakeholders: The Holtek's website discloses the Stakeholders Concerns for the Company to respond to issues raised by stakeholders.</p> <p>E. Directors' self-development courses: The Company plans directors' self-development courses every year to strengthen their professional knowledge and practical operation. Refer to Page 64 of this annual report.</p> <p>F. Implementation of risk management policies and risk measurement standards: The Company has established and effectively implemented an internal control system to reduce various risks. Refer to Page 268 ~ Page 271 of this annual report.</p> <p>G. Arrangement of liability insurance for its directors: The renewal of</p>	None

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Summary	
			the board of directors' liability insurance has been approved by the Audit Committee and the Board of Directors in October, 2018. The insurance amount for 2018 was US\$ 5 million, which was reported to the TWSE's Market Observation Post System according to the regulations.	
<p>9. The improvement status for the result of Corporate Governance Evaluation announced by the Taiwan Stock Exchange.</p> <p>The Company has been ranked as a top 20% TPEX company in the first, second and forth Corporate Governance Evaluation; a top 5% TPEX company in the third Corporate Governance Evaluation. In the future, we will continue to cooperate with all competent authorities in promoting and improving corporate governance evaluation to strengthen corporate governance.</p>				

Note 1: Stakeholders' concerns and communication channels

The Company maintains good communication channels for the rights of its stakeholders. It respects the lawful rights and concerns of stakeholders, integrates the efforts of internal organizations, and effectively implements the mission of corporate social responsibility.

Stakeholders	Concern Items	Communication Channels and Methods
Employees	1. Employee benefits 2. Career planning and development 3. On-the-job training 4. Equal rights to work and workplace safety 5. Physical and mental health	1. Company announcement 2. Communication channel for the Administration Division 3. Labor management meetings 4. Employee suggestion box 5. Employee welfare committee 6. Medical staff
	Name: Shiou-Ming, Li, Manager of Administrative Division; Tel: 886-3-5631999 ext. 1303; Email: liman1103 @holtek.com.tw	
Customers	1. Product quality and delivery time	1. Customer satisfaction survey

Stakeholders	Concern Items	Communication Channels and Methods
	2. Ability of engineering technology and application scheme 3. Supply chain management 4. Sales service and privacy	2. Visiting customers by senior managers 3. Customer auditing 4. Agent regular meetings
	Contact Information: The Holtek website has set up a location for Stakeholders Concerns for stakeholders to establish communication channels, designated officers' names, telephone and E-mail for each area of the sales divisions.	
Shareholders /Investors	1. Operation overview 2. Financial information 3. Risk management 4. Profitability and dividend payment of the company 5. Corporate governance and corporate social responsibility	1. Annual report 2. Shareholders annual meeting 3. Quarterly investor conferences and irregularly investment forum 4. Stakeholders Concerns on the Holtek's website
	Name: Claire Hsieh, Investor Relations & Media Contacts; Tel: 886-3-5631999 ext. 1612; Email: ir@holtek.com.tw	
Suppliers	1. Conflict free minerals 2. Implementation of green products 3. Supplier services and privacy 4. Payment capacity and financial risk	1. Supplier meetings 2. Visit suppliers by senior managers 3. Supplier satisfaction survey 4. Supplier auditing and quality inspection 5. Supplier ISO certification
	Name: Shiou-Ming, Li, Manager of Procurement Business; Tel: 886-3-5631999 ext. 1303; Email: liman1103 @holtek.com.tw	
Government Institutions	1. Major Company information 2. Compliance 3. Disclosure of Company information 4. Issues related to corporate governance 5. Labor relations and gender equality 6. Tax payment 7. Industrial upgrading	1. Official document 2. Regulatory briefings 3. Open information observatory 4. Communicate immediately with competent authorities 5. Accountant audit and tax services 6. Legal advisory service
	Name: Claire Hsieh, Investor Relations & Media Contacts; Tel: 886-3-5631999 ext. 1612; Email: ir@holtek.com.tw	

Stakeholders	Concern Items	Communication Channels and Methods
Public Persons	1. Social participation and industry-academic cooperation 2. Social welfare and charitable donations	1. Industry-academic cooperation 2. Provide training and internship opportunities for students in the Company 3. Annual Holtek Innovation Competition 4. Donations and procurement of products for disadvantaged groups
	Name: Claire Hsieh, Investor Relations & Media Contacts; Tel: 886-3-5631999 ext. 1612; Email: ir@holtek.com.tw	

3.4.4 Composition, Responsibilities and Operations of the Compensation Committee

1. The duties of Compensation Committee:

- (1) Prescribe and periodically review the annual and long-term performance and remuneration policy, system, standards and structure for directors and managers.
- (2) Periodically evaluate achievement of performance targets by directors and managers and prescribe their individual scope and amount of remuneration.

2. Professional qualifications and independence analysis of Compensation Committee members:

Title (Note 1)	Criteria Name	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director (Note 2)								Number of Other Public Companies in Which the Individual is Concurrently Serving as an Remuneration Committee Member	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 Specialist 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 Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8		
Independent Director	Hsing, Chih-Tien			✓	✓	✓	✓	✓	✓	✓	✓	✓	2	
Independent Director	Lu, Cheng-Yueh		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	
Independent Director	Kuo, Tai-Haur	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	1	

Note: Please tick the corresponding boxes that apply to a member during the two years prior to being elected or during the term(s) of office.

1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of affiliated companies. Not applicable in cases where the person is an independent director of the parent

company, or any subsidiary in which the Company holds, directly or indirectly, more than 50% 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 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 sub-paragraphs.
5. Not a director 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, 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 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.
8. Not a person of any conditions defined in Article 30 of the Company Act.

3. Attendance of members at Compensation Committee meetings:

- (1) The Company's Compensation Committee has 3 members in total.
- (2) Current members will serve from June 7, 2016 to May 26, 2019. The Compensation Committee held 5 sessions in 2018. The attendance of the Compensation Committee members is shown in the following table:

Title	Name	Attendance in Person	By Proxy	Attendance Rate (%)	Remarks
Convener	Hsing, Chih-Tien	4	1	80%	
Committee Member	Lu, Cheng-Yueh	5	0	100%	
Committee Member	Kuo, Tai-Haur	5	0	100%	

Other mentionable items:

1. If the Board of Directors declines to adopt or modifies a recommendation of the Compensation Committee, it should specify the date of the meeting, session, content of the motion, resolution by the Board of Directors, and the Company's response to the Compensation Committee's opinion (eg., the remuneration passed by the Board of Directors exceeds the recommendation of the Compensation Committee, the circumstances and cause for the difference shall be specified): None.
2. Resolutions of the Compensation Committee objected to by members or subject to a qualified opinion and recorded or declared in writing, the date of the meeting, session, content of the motion, all members' opinions and the response to members' opinion should be specified: None.

Date	Resolution	Independent directors' opinions and the Company's Follow-up
2018.01.26 The 3 rd Term, the 9 th Meeting	<ol style="list-style-type: none"> 1. Approved the Company's "Regulations Governing the Compensation System of the Directors and the Managers". 2. Approved the managers' quarterly bonuses for the fourth quarter of 2017. 3. Approved the managers' annual bonuses for the fourth quarter of 2017. 4. Approved the managers' payroll adjustments of 2018. 5. Approved the managers' monthly performance allowances for the first quarter of 2018. 6. Approved the managers' monthly position allowances of 2018. 	There is no objection or reservation expressed by any independent director in all five Compensation Committee Meetings and major resolutions have been fully passed by the Compensation Committee members and the Board of Directors.

Date	Resolution	Independent directors' opinions and the Company's Follow-up
2018.04.27 The 3 rd Term, the 10 th Meeting	1. Approved the managers' monthly performance allowances for the second quarter of 2018.	There is no objection or reservation expressed by any independent director in all five Compensation Committee Meetings and major resolutions have been fully passed by the Compensation Committee members and the Board of Directors.
2018.05.25 The 3 rd Term, the 11 th Meeting	1. Approved the managers' quarterly bonuses for the first quarter of 2018.	
2018.07.27 The 3 rd Term, the 12 th Meeting	1. Approved the managers' quarterly bonuses for the second quarter of 2018. 2. Approved the managers' monthly performance allowances for the third quarter of 2018. 3. Approved the allocation of 2017 directors' remuneration and employee bonuses of managers'.	
2018.10.26 The 3 rd Term, the 13 th Meeting	1. Approved the managers' quarterly bonuses for the third quarter of 2018. 2. Approved the managers' monthly performance allowances for the fourth quarter of 2018.	

3.4.5 Status of Fulfilling Corporate Social Responsibility

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Summary	
<p>1. Implementation of Corporate Governance</p> <p>(1) Does the Company have a corporate social responsibility policy and does it evaluate its implementation?</p>	✓		<p>(1) The Company conducts “The Best Practice Principles of Corporate Social Responsibility” and has set up a Corporate Social Responsibility Committee which holds regular meetings to set goals and review the effectiveness of its implementation annually.</p> <p>Specific promotion plans and implementation results in 2018:</p> <p>A. The Company won the Global Semiconductor Alliance (GSA)’s 2018 Best Financially Managed Semiconductor Company.</p> <p>B. Charity activities:</p> <p>(A) The Company orders gift boxes of Taiwan’s agricultural products during Chinese New Year, Moon Festival and the Dragon Boat Festival from various disabled and disadvantaged groups and from Taiwan farmers' alliances in 2018. In addition, the Company actively looks for social welfare groups which match Holtek’s donation objectives, such as the Genesis Social Welfare Foundation, the Syin-Lu Social Welfare Foundation, etc.</p> <p>(B) The Company donates to the Huashan Social Welfare Foundation, the EDEN Social Welfare Foundation, the Taiwan Association for Visually Impaired People and the Hope Foundation for Cancer Care in 2018 for contributing to the global environment and society.</p>	None

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Summary	
			<p>(C) The Company's employees actively participated in charitable activities and donations, such as the Taiwan Fund for Children and Families to promote and advocate for the wellbeing of children, youth, and underprivileged families, the Sunshine Social Welfare Foundation to provide an extensive range of services for burn survivors and people with facial disfigurements, etc.</p> <p>C. Holtek University Program: The Company donated microcontroller development systems worth NT\$ 6 million to seven universities in Taiwan in 2018. Due to these Holtek University Programs, more than 3,000 students have entered the workforce around the world. In addition there were seven students who won a prize or who were recommended by university professors for enrollment by Holtek.</p> <p>D. Holtek MCU Innovation Competition: The 13th Holtek MCU Innovation Competition provided free microcontroller boards worth NT\$ 2,500 to each person in the participating teams as well as development systems and prize money approaching NT\$ 2.5 million.</p>	
(2) Does the Company hold regular CSR training?	✓		(2) The Company plans internal training courses and various activities to promote and convey the concept of social responsibility.	None
(3) Does the Company have a dedicated (or ad-hoc) CSR organization with Board of Directors authorization for senior management, which reports to the Board of Directors?	✓		(3) The Resource Management Center is responsible for the operation of corporate social responsibility. The Finance & Accounting, the Quality Assurance & Reliability Division, the Industry Safety Environment Protection Department, the Application Promotion Planning Division, the Production Planning and Engineering Division and the Administration	None

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Summary	
(4) Does the Company set a reasonable compensation policy, integrate employee appraisal with CSR policy, and set clear and effective incentive and disciplinary policies?	✓		<p>Division assist the establishment and reviewing of corporate social responsibility policy, regularly monitoring relative laws and social environment development issues, conduct relevant responding actions, report the implementation results to the Board of Directors annually.</p> <p>(4) In accordance to the “Rules and Procedures for Performance Assessments”, the Company timely combines the training of corporate social responsibility with the employee performance appraisal system, and establishes a clear and effective incentive and disciplinary policies.</p>	None
2. Environmentally Sustainable Development				
(1) Is the Company committed to improving its resource efficiency and its use of renewable materials with low environmental impact?	✓		(1) The Company is committed to promote the efficient usage of various resources (such as re-usage of transport packaging). The main framework for the development of pollution prevention and continuous improvement is researching the energy-saving concepts of green products, improving its process technology to reduce environmental impacts, importing from green supply chains, promoting environmental education and enforcing recycling to protect water resources and maintain a sustainable earth.	None
(2) Has the Company set up an Environmental management system in line with industry standards?	✓		(2) The Company has obtained ISO14001 certification. A dedicated unit is responsible for continuous improvement in its environmental management system and its philosophy of corporate social responsibility.	None
(3) Does the Company track the impact of climate change on operations, carry out	✓		(3) The Company is committed to environmental protection in	None

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Summary	
greenhouse gas inventories, and set energy conservation and greenhouse gas reduction strategy?			response to global climate change, including energy-saving measures in offices and computer rooms, continuous promotion of electronic document management systems and electronic products from product development to production management for low carbon emission and resource saving development.	
3. Promotion of Social Welfare				
(1) Does the Company set policies and procedures in compliance with regulations and internationally recognized human rights principles?	✓		(1) A. Holtek understands and follows related international standards, including the Responsible Business Alliance (RBA) Code of Conduct, UN Universal Declaration of Human Rights and Principles of the UN Global Compact, etc. The Company also complies with the requirement of local laws and regulations. B. The Company respects the implementation of labor and ethical standards within the organization which has been declared on the employee website. In order to protect human rights, provide fair treatment and respect for every employee, Holtek has formulated a “Guidelines on Dealing with Employee Sexual Harassment” to protect the rights of its employees and job-seekers.	None
(2) Has the Company established appropriately managed employee appeal procedures?	✓		(2) The Company has set up internal E-mail boxes and holds department meetings for two-way communication between employees and management. If any information is found or reported, the responsible personnel shall deal with it according to "The whistle-blowing system" established by the Company.	None
(3) Does the Company provide employees with a safe and healthy working	✓		(3) The Company has obtained OHSAS18001 certification. Related training is provided for continuous improvement of safety and health in employee safety matters to create a good working	None

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Summary	
environment, with regular safety and health training?			environment and protect the physical and mental health and safety of employees. Refer to Page 104 of this annual report.	
(4) Has the Company established a mechanism for regular communication with employees and use reasonable measures to notify employees of operational changes which may cause significant impact to employees?	✓		(4) The Company holds quarterly labor and management meetings for effective communication. For major changes in the management system or business operation, the Company shall hold an meeting to explain this to its employees.	None
(5) Has the Company established effective career development training plans?	✓		(5) The Company spares no effort in the cultivation of talent excellence. In addition to budgeting for employees' further study, the Company has designed in-house training courses to provide a challenging and learning environment. Refer to Page 101~104 of this annual report.	None
(6) Has the Company established polices and consumer appeal procedures in its R&D, purchasing, production, operations, and service processes?	✓		(6) The Company conducts relevant policies and complaint procedures to protect consumers' rights, such as the "Regulations of Customer Satisfaction", the "Regulations of Handling Customer Complaints", the "Regulations of Handling Customer Returns or Refunds" and "The Whistle-blowing System", so as to safeguard customers' rights.	None
(7) Does the Company follow regulations and international standards in the marketing and labelling of its products and services?	✓		(7) The Company follows regulations and international standards in the marketing and labelling of its products and services.	None
(8) Does the company evaluate environmental and social track records before engaging with potential	✓		(8) The Company will carry out supplier evaluation according to internal regulations and shall comply with the supplier management policy formulated by the Company before becoming a qualified supplier.	None
	✓			

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Summary	
suppliers? (9) Does the Company's contract with major suppliers include termination clauses if they violate CSR policy and cause significant environmental and social impact?			(9) The Company will audit supplier's operation according to the "Regulations of supplier management". If any violation is found, the Company will request improvement within a time limit.	None
4. Enhanced Information Disclosure (1) Does the Company disclose relevant and reliable CSR information on its website and the Taiwan Stock Exchange website?	✓		(1) The policy of corporate social responsibility is declared on the Holtek website to show information related to corporate social responsibility. Refer to the Holtek website and the TWSE's Market Observation Post System.	None
5. If the company has established its corporate social responsibility code of practice according to "the Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies", describe the operational status and differences. The Company has set up a corporate social responsibility policy in written form whose practices are in accordance with "the Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies".				
6. Other important information to facilitate better understanding of the company's implementation of corporate social responsibility: Refer to the Holtek website for its corporate social responsibility implementation status: http://www.holtek.com.tw/web/guest/responsibility .				
7. Other information regarding "Corporate Responsibility Report" which is verified by certifying bodies: None.				

3.4.6 Ethical Corporate Management

Assessment Items	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Summary	
1. Establishment of Corporate Conduct and Ethics Policy and Implementation Measures				
(1) Does the company have bylaws and publicly available documents addressing its corporate conduct and ethics policy and measures, and the commitment regarding implementation of such policy from the Board of Directors and the management team?	✓		(1) The Company conducts the "Best Practice Principles of Ethical Corporate Management", the "Codes of Ethical Conduct of Directors' and Managers'" and the "Rules of Integrity for the employees". The directors and managers of the Company shall exercise the due care of good administrators to urge the company to prevent unethical conduct, always review the results of the preventive measures and continually make adjustments so as to ensure thorough implementation of its ethical corporate management policies.	None
(2) Does the company establish relevant policies which are duly enforced to prevent unethical conduct and provide implementation procedures, guidelines, consequence of violation and complaint procedures in such policies?	✓		(2) The Company conducts the "Whistle-blowing System", the "Employee Code of Conduct" and the "Codes of Ethical Conduct of Directors' and Managers". The directors and managers shall not directly or indirectly obtain personal gain improper benefits or any frauds by using company property or information or taking advantage of their positions. The Company has contained these abovementioned regulations in the Company's internal policies and new staff training materials. Through the internal audit system, the Company establishes a strict prevention system to prevent dishonest behavior from taking place in a more effective manner.	None
(3) Does the company establish appropriate compliance measures for the business activities prescribed in	✓		(3) The Company conducts the "Best Practice Principles of Ethical Corporate Management". The directors and managers shall analyze which business activities within their business scope	None

Assessment Items	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Summary	
paragraph 2, article 7 of the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies and any other such activities associated with high risk of unethical conduct?			which are possibly at a higher risk of being involved in an unethical conduct, and strengthen the preventive measures for achieving better implementation of ethical management.	
2. Facilitation of Ethical Corporate Management				
(1) Does the company assess the ethics records of whom it has business relationship with and include business conduct and ethics related clauses in the business contracts?	✓		(1) The Company shall avoid engaging in business transactions with its agents, suppliers, clients or trading counterparties involved in unethical conduct and should at any time terminate or rescind the contracts with any trading counterparties. The Company shall list them as the objects of refusal to deal with, in order to implement the Company's ethical management policy.	None
(2) Does the company set up a unit which is dedicated to or tasked with promoting the company's ethical standards and reports directly to the Board of Directors with periodical updates on relevant matters?	✓		(2) A. The Resource Management Center is responsible for establishing and supervising the implementation of the ethical corporate management policies and prevention programs. The Sales Division, Design Center, Product Center and Quality Assurance & Reliability Division shall be in charge of the following matters, and report to the Board of Directors at least once a year. B. The Company regularly plans training courses related to integrity management, prevention and control system of internal frauds, internal transaction prevention and control measures, accounting system, internal control, copyright	None

Assessment Items	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Summary	
(3) Does the company establish policies to prevent conflicts of interests, provide appropriate communication and complaint channels and implement such policies properly?	✓		protection, and hazardous substance management and other related courses. In 2018, the Company provided nearly 320 hours of training and a total of 211 attendees participated in the above training courses. (3) The Company conducts the "Best Practice Principles of Ethical Corporate Management" and the "Whistle-blowing System" for preventing conflicts of interests and establishing appropriate representation channels. If any dishonesty or illegal conduct is discovered or reported, the dedicated personnel shall immediately handle it.	None
(4) To implement relevant policies on ethical conducts, does the company establish effective accounting and internal control systems that are audited by internal auditors or CPA periodically?	✓		(4) The Company establishes a complete and effective accounting system and internal control system. The internal auditing department and external professional institutions (such as CPAs) shall continuously inspect the violation of business integrity.	None
(5) Does the company provide internal and external ethical conduct training programs on a regular basis?	✓		(5) The Company conducts the "Best Practice Principles of Ethical Corporate Management", the "Codes of Ethical Conduct of Directors' and Managers'" and the "Rules of Integrity for the employees" for all directors, managers and employees to follow.	None
3. Implementation of Complaint Procedures (1) Does the company establish specific complaint and reward procedures, set up conveniently accessible complaint channels, and designate responsible individuals to handle the complaint	✓		(1) The Company conducts the "Whistle-blowing System" and the "Rules of Integrity for the employees", which will be handled by the designated personnel. If the whistleblowing issues involve general employees, it shall be reported to the head of department; Any tip involving a director or senior manager, the	None

Assessment Items	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Summary	
received?			designated personnel shall prepare a report and notify the independent directors.	
(2) Does the company establish standard operation procedures for investigating the complaints received and ensuring such complaints are handled in a confidential manner?	✓		(2) The Company conducts the "Whistle-blowing System" for executing investigation and relevant confidentiality mechanism.	None
(3) Does the company adopt proper measures to prevent a complainant from retaliation for his/her filing a complaint?	✓		(3) The Company shall provide the legitimate and independent whistleblowing channel and keep confidentiality of the identity of whistle-blowers and the content of reported cases to maintain the personal safety of the whistleblowers.	None
4. Information Disclosure				
(1) Does the company disclose its guidelines on business ethics as well as information about implementation of such guidelines on its website and Market Observation Post System ("MOPS")?	✓		(1) The Company conducts the "Best Practice Principles of Ethical Corporate Management" and the "Codes of Ethical Conduct of Directors' and Managers" which have been disclosed on Holtek's website and the TWSE's Market Observation Post System.	None
5. If the company has established corporate governance policies based on Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies, please describe any discrepancy between the policies and their implementation: The Company conducts "Best Practice Principles of Ethical Corporate Management" and its operational status does not differ from the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies".				
6. Other important information to facilitate better understanding of the company's corporate conduct and ethics compliance practices (e.g., review the company's corporate conduct and ethics policy): Up until now, there has been no major violation of the integrity management regulations,				

Assessment Items	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Summary	
which has affected the Company's operation.				

7. How they may be found shall be disclosed if the Company has established Corporate Governance Principles and related regulations:

Please refer to Holtek's Website: <http://www.holtek.com.tw> and Market Observation Post System <http://mops.twse.com.tw>.

8. Other Important Information Regarding Corporate Governance:

Further education of directors, accounting supervisors and audit supervisors:

Position	Name	Date	Professional Development Institutions	Course Name	Hours
Chairman	Wu Chi-Yung	2018/03/01	Taiwan Corporate Governance Association	The prevention of internal frauds and establishment of the whistle-blower system of the company	3
		2018/11/07	Taiwan Corporate Governance Association	The latest practice development of insider trading and its prevention and control methods	3
Director	Gau, Kuo-Tung	2018/03/01	Taiwan Corporate Governance Association	The prevention of internal frauds and establishment of the whistle-blower system of the company	3
		2018/11/07	Taiwan Corporate Governance Association	The latest practice development of insider trading and its prevention and control methods	3
Director	Chang, Chi	2018/03/01	Taiwan Corporate Governance Association	The prevention of internal frauds and establishment of the whistle-blower system of the company	3
		2018/11/07	Taiwan Corporate Governance Association	The latest practice development of insider trading and its prevention and control methods	3
Director	Lin, Cheng-Fung	2018/03/01	Taiwan Corporate Governance Association	The prevention of internal frauds and establishment of the whistle-blower system of the company	3
		2018/11/07	Taiwan Corporate Governance Association	The latest practice development of insider trading and its prevention and control methods	3
Director	Li, Pei-Ying	2018/03/01	Taiwan Corporate Governance Association	The prevention of internal frauds and establishment of the whistle-blower system of the company	3
		2018/11/07	Taiwan Corporate Governance Association	The latest practice development of insider trading and its prevention and control methods	3
Director	Wang, Jen-Chung	2018/03/01	Taiwan Corporate Governance Association	The prevention of internal frauds and establishment of the whistle-blower system of the company	3
		2018/11/07	Taiwan Corporate Governance Association	The latest practice development of insider trading and its prevention and control methods	3
Independent Director	Lu, Cheng-Yueh	2018/03/01	Taiwan Corporate Governance Association	The prevention of internal frauds and establishment of the whistle-blower system of the company	3
		2018/11/07	Taiwan Corporate Governance Association	The latest practice development of insider trading and its prevention and control methods	3
Independent Director	Hsing, Chih-Tien	2018/03/01	Taiwan Corporate Governance Association	The prevention of internal frauds and establishment of the whistle-blower system of the company	3
		2018/11/07	Taiwan Corporate Governance Association	The latest practice development of insider trading and its prevention and control methods	3
Independent Director	Kuo, Tai-Haur	2018/03/01	Taiwan Corporate Governance Association	The prevention of internal frauds and establishment of the whistle-blower system of the company	3
		2018/04/19	Taiwan Corporate Governance Association	The latest version of trends analysis of the Company Act	3
		2018/04/19	Taiwan Corporate Governance Association	Corporate social responsibility and sustainable competitiveness of the company	3
Accounting	Liao, Ming-Tung	2018/10/01 ~ 2018/10/09	Accounting Research and Development Foundation	Professional training courses for a new-appointed accounting officers of issuers, securities firms and securities exchanges	30
Internal Audit	Lee, Wen-Te	2018/07/09 ~ 2018/07/10	The Institute of Internal Auditors	Advanced training courses of the internal auditing officers of a publicly issued company	12

9. Matters that should be disclosed regarding the implementation of the internal control system:

(1) Statement of Internal Control System:

Holtek Semiconductor Inc.

Internal Control System Statement

Date: March 06, 2019

For the Company's internal control system of 2018, we would like to declare as follows according to the results of spontaneous inspections:

- I. The Company knows that establishing, enforcing, and maintaining an internal control system is the responsibility of the Company's Board of Directors and managers and has such a system in place already. It is meant to reasonably ensure fulfillment of the operational efficacy and efficiency (including profits, performance, and protection of asset security), reliability of financial reports, and compliance with applicable laws and regulations, among other goals.
- II. The internal control system has its inherited restrictions that cannot be overcome with improved design. An effective internal control system can also only reasonably ensure the fulfillment of the three goals stated above and its effectiveness may change as the environment or situation changes. There is a self-surveillance mechanism; however, built inside the internal control system of the Company that helps the Company take a corrective action against deficiencies confirmed.
- III. The Company determines the effectiveness of the design and implementation of its internal control system in accordance with the items in "Governing Regulations for Public Company's Establishment of Internal Control System" (hereinafter referred to as "Governing Regulations") that are related to the effectiveness of internal control systems. The items adopted in the Governing Regulations for determining the internal control system are the five constitutional elements of the internal control system divided according to the management and control process: 1. control environment, 2. risk assessment, 3. control process, 4. information and communication, and 5. supervision. Each element further encompasses several items. Please refer to "Governing Regulations" for details.
- IV. The Company has adopted the abovementioned determining items and conducted inspection of the design and effectiveness of its internal control system.
- V. Pursuant to the results of the abovementioned inspections, the Company is of the view that the design and implementation of its internal control system as of December 31, 2018 (including its supervision and management of subsidiaries), including its awareness the extent by which the operating effects and efficiency goals are fulfilled, reliability of financial reporting, and compliance with relevant laws and regulations, are such that it is effective and capable of reasonably ensuring that the aforementioned goals can be achieved.
- VI. This Statement constitutes a major part of the Company's Annual Report and the Company's Prospectus that are made available to the public. The Company shall be legally liable under Articles 20, 32, 171 and 174 of the Securities and Exchange Act with respect to any unlawful aspects such as falsehood or concealment of facts in relation to the aforesaid statement.
- VII. This Statement was approved at the meeting of the Company's Board of Directors on March 06, 2019 with no Directors expressing dissent out of the 9 Directors in attendance.

Holtek Semiconductor Inc.

Chairman: Wu, Chi-Yung

General Manager: Gau, Kuo-Tung

- (2) When a CPA is authorized to review the internal control system, the review report prepared by the CPAs shall be disclosed: None.
10. Any legal sanctions against the Company or its internal personnel, or any disciplinary action taken by the Company against its own personnel for violating internal control requirements, in the latest year or during the current fiscal year up to the printing of the Annual Report; and a description of the main shortcomings in the Company's internal control system as well as an indication of measures for improvement: None
11. Major Resolutions of the Annual Shareholders' Meeting, the Board of Directors' Meetings and the Audit Commission's Meetings:

(1) Major resolutions of 2018 Annual Shareholders' Meeting:

Items	Major Resolutions	Implementation Status
Approval items	A. Adoption of the 2017 business report and financial statements. B. Adoption of the 2017 earnings distribution.	A. Resolution passed. B. Approved a cash dividend of NT\$3.636/per shares. The record date was August 20, 2018. The amount of cash dividend was NT\$ 822,347, 575 which was distributed on August 30, 2018.
Discussion items	A. Proposal of the distribution of cash dividends from legal reserve B. Permit of directors' engagement in competitive conduct	A. Approved a cash dividend from legal reserve of NT\$0.464/per shares. The record date was August 20, 2018. The amount of cash dividend was NT\$ 104,942, 045 which was distributed on August 30, 2018. B. Resolution passed. The material information was announced on May 28, 2018.

- (2) During the 2018 calendar year and as of the printing date of this annual report, 9 Board of Directors' Meetings were convened.

Major resolutions approved at these meetings are summarized below:

Date	Major Resolutions
Jan. 29, 2018 The 7 th Term, the 11 th Board Meeting	1. Approved the allocation of 2017 employee bonuses and directors' remuneration. 2. Approved 2017 consolidated and individual financial statements. 3. Approved the performance assessments and remuneration of directors and managers.
Mar. 01, 2018 The 7 th Term, the 12 th Board Meeting	1. Approved the 2017 business report. 2. Approved the distribution of 2017 profits and cash dividends. 3. Approved the distribution of cash dividends from legal reserve. 4. Approved the permit of directors' engagement in competitive conducts. 5. Approved the convention of 2018 Annual Shareholders' Meeting. 6. Approved the statement of Internal Control System. 7. Approved the assessment report of CPA's independence and competence.

Date	Major Resolutions
April 30, 2018 The 7 th Term, the 13 th Board Meeting	<ol style="list-style-type: none"> 1. Approved the investment of MCU Holdings Ltd., the Company's subsidiary, to Best Power Electronics Corporation. 2. Approved the performance assessments and remuneration of directors and managers.
May 28, 2018 The 7 th Term, the 14 th Board Meeting	<ol style="list-style-type: none"> 1. Approved the assignment of the head of accounting department. 2. Approved the assignment of the head of auditing department. 3. Approved the issuance of short-term currency exchange credit of Bank Sinopac Hsinchu Branch. 4. Approved the performance assessments and remuneration of directors and managers.
July 30, 2018 The 7 th Term, the 15 th Board Meeting	<ol style="list-style-type: none"> 1. Approved the record date and cash dividend distribution date for 2017 for common share dividends. 2. Approved the distribution date of cash dividends from legal reserve. 3. Approved the withdrawal of investment in Gingy Technology Co., Ltd.. 4. Approved the permit of directors' engagement in competitive conducts. 5. Approved the performance assessments and remuneration of directors and managers.
Oct. 29, 2018 The 7 th Term, the 16 th Board Meeting	<ol style="list-style-type: none"> 1. Approved the purchase of the directors and managers liability insurance. 2. Approved the 2019 audit operational risk assessment reports and annual audit plans. 3. Approved the 2019 business plan. 4. Approved the appointment of representative of a juridical person director and general manager of re-invested companies and the permit of its directors' engagement in competitive conducts. 5. Approved the appointment of representative of a juridical person director of re-invested companies and permit of its managers' engagement in competitive conducts. 6. Approved the performance assessments and remuneration of directors and managers.

Date	Major Resolutions
<p>Jan. 28, 2019</p> <p>The 7th Term, the 17th Board Meeting</p>	<ol style="list-style-type: none"> 1. Approved the allocation of 2018 employee bonuses and directors' remuneration. 2. Approved 2018 consolidated and individual financial statements". 3. Approved the amendment to the Company's "Articles of Incorporation. 4. Approved the assignment of head of Finance Department. 5. Approved the assignment of Spokesperson and Acting Spokesperson. 6. Approved the assignment of General Manager of Holtek Semiconductor Inc.'s Hong Kong Subsidiary. 7. Approved the amendment of authorized signatures of bank accounts on behalf of Holtek Semiconductor Inc.'s Hong Kong Subsidiary. 8. Approved the increased investment of MCU Holdings Ltd., the Company's subsidiary, to JXY Electronics Corporation. 9. Approved the amendment to "the Board of Directors' Self-Assessment of Performance" and 2018 performance reports of Board of Directors, Compensation Committee and Audit Committee. 10. Approved the performance assessments and remuneration of directors and managers.
<p>Mar. 06, 2019</p> <p>The 7th Term, the 18th Board Meeting</p>	<ol style="list-style-type: none"> 1. Approved the 2018 business report. 2. Approved the distribution of 2018 profits and cash dividends. 3. Approved the distribution of cash dividends from legal reserve. 4. Approved the amendment to the "Procedures for Acquisition or Disposal of Assets and Financial Derivatives". 5. Election of the 8th term Directors (including independent directors) will be proposed at 2019 Annual Shareholders' Meeting in accordance with the Company's "Articles of Incorporation". 6. Approved the permit of directors' engagement in competitive conducts. 7. Approved the convention of 2019 Annual Shareholders' Meeting. 8. Approved the statement of Internal Control System. 9. Approved the assessment report of CPA's independence and competence.

Date	Major Resolutions
Apr. 15, 2019 The 7 th Term, the 19 th Board Meeting	<ol style="list-style-type: none"> 1. Approved the examination of nominees of the 8th term directors (including independent directors). 2. Approved the amendment to the “Procedures for Lending Funds to Other Parties”. 3. Approved the amendment to the “Procedures for Endorsements/Guarantees”. 4. Approved the amendment of subjects for convening 2019 Annual Shareholders' Meeting.

12. Major issues of record or written statements made by any Directors dissenting to major resolutions passed by the Board of Directors: None.
13. Resignation or dismissal of the Company’s key individuals, including the Chairman, CEO, and heads of Accounting, Finance, Auditing and R&D:

As of April 15, 2019

Title	Name	Date of Appointment	Date of Termination	Reasons for Resignation or Dismissal
Head of Accounting	Lee, Wen-Te	2012/08/01	2018/06/01	Position Adjustment
Head of Accounting	Liao, Ming-Tung	2018/06/01	-	Position Adjustment
Head of Auditing	Liao, Ming-Tung	2014/02/01	2018/06/01	Position Adjustment
Head of Auditing	Lee, Wen-Te	2018/06/01	-	Position Adjustment
Head of Finance	Li, Pei-Ying	2004/05/11	2019/02/01	Retirement for personal plan
Head of Finance	Liao, Ming-Tung	2019/02/01	-	Position Adjustment

3.5 Information on the Fees for CPAs

3.5.1 The non-audit fee paid to certified CPA, certified Office of CPA and its affiliated companies accounts for over 1/4 to audit fee:

Unit: NT\$ thousands

CPA Firm	Name of CPA	Audit Fee	Non-Audit Fee					Inspection period	Remarks
			System Design	Company Registration	Human Resource	Others	Sub total		
KPMG	Tseng, Mei-Yu Yu, Wan-Yuan	3,320	0	0	0	970	970	2018/01/01~2018/12/31	Tax Service

3.5.2 Alter the CPA Firm and the audit fee in altering year is less than that in the previous year:

None.

3.5.3 The audit fee is reduced by over 15% compared with the previous year:

None.

3.6 Information on the Replacement of CPAs:

None.

3.7 Where the Company's Chairman and Management Team Members in charge of Finance or Accounting Matters has Held a Position at the Accounting Firm of its Independent Auditors or at an Affiliated Enterprise in the Most Recent Year:

None.

3.8 Transfer of Stock Options and Changes in Equity Pledge of Directors, Managers, and Shareholders Holding More Than 10% of Shares in the Latest Year and as of the Date of Printing of Annual Report

3.8.1 Changes in Shareholding of Directors, Managers and Major Shareholders

Unit: Shares

Title	Name	2018		As of March 31, 2019	
		Net Change in Shareholding	Net Change in Shares Pledged	Net Change in Shareholding	Net Change in Shares Pledged
Chairman	Wu Chi-Yung	—	—	—	—
Director and General Manager	Gau, Kuo-Tung	—	—	—	—
Director and Executive Vice President	Chang, Chi	—	—	—	—
Director and Vice President	Lin, Cheng-Fung	—	—	—	—
Director and Vice President	Li, Pei-Ying	—	—	—	—
Director	Wang, Jen-Chung	—	—	—	—
Independent Director	Lu, Cheng-Yueh	—	—	—	—
Independent Director	Hsing, Chih-Tien	—	—	9,000	—
Independent Director	Kuo, Tai-Haur	—	—	—	—
Vice President	Tsai, Jung-Tsung	30,000	—	—	—
Assistant Vice President	Wu, Shao-Nan	—	—	—	—
Assistant Vice President	Wu, Der-Chwan	—	—	—	—
Assistant Vice President	Yu, Kuo-Cheng	—	—	—	—
Assistant Vice President	Wang, Yuh-Dinhn	—	—	—	—
Assistant Vice President	Wang, Min-Kun	—	—	—	—
Assistant Vice President	Liu, Yuan-Ho	—	—	—	—
Head of Accounting	Liao, Ming-Tung	—	—	—	—
Head of Finance (Note)	Liao, Ming-Tung	—	—	—	—
Major Shareholder	United Microelectronics Corp.	—	—	—	—

Note: Liao, Ming-Tung was appointed as the head of finance department with the effective date of February 1, 2019.

3.8.2 Shares Trading with Related Parties:

None

3.8.3 Shares Pledge with Related Parties:

None

3.9 Information Disclosing the Relationship between Any of the Company's Top Ten Shareholders

As of March 31, 2019; Unit: Shares

Name	Current Shareholding		Spouse's/minor's Shareholding		Specific Person Shareholding		Name and Relationship Between the Company's Top Ten Shareholders, or Spouses or Relatives Within Two Degrees		Remarks
	Shares	%	Shares	%	Shares	%	Name	Relationship	
United Microelectronics Corporation Representative: Hung, Chia-Tsung	24,644,257	10.90%	—	—	—	—	None	None	
iSharesIV Public Limited Company	8,272,000	3.66%	—	—	—	—	None	None	
Wu, Chi-Yung	7,665,809	3.39%	2,745,598	1.21%	—	—	Chang, An-Hua	Spouse	
	7,435,500	3.29%	—	—	—	—	None	None	
Gau, Kuo-Tung	6,701,176	2.96%	—	—	—	—	None	None	
Qi Sheng Investment Ltd. Representative: Chen, Chia-Hung	5,423,703	2.40%	—	—	—	—	None	None	
Morgan Stanley & Co. International Plc.	5,045,782	2.23%	—	—	—	—	None	None	
Shih Kong Life Insurance Co., Ltd. Representative: Wu, Tung-Chin	4,625,000	2.04%	—	—	—	—	None	None	

Name	Current Shareholding		Spouse's/minor's Shareholding		Specific Person Shareholding		Name and Relationship Between the Company's Top Ten Shareholders, or Spouses or Relatives Within Two Degrees		Remarks
	Shares	%	Shares	%	Shares	%	Name	Relationship	
National Culture and Arts Foundation Representative: Lin, Man-Li	4,538,000	2.01%	—	—	—	—	None	None	
Bo-Ding Investment Ltd. Representative: Chang, An-Hua	4,484,841	1.98%	—	—	—	—	Wu, Chi-Yung	Spouse	

3.10 Ownership of Shares in Affiliated Enterprises

As of December 31, 2018

Affiliated Enterprises (Note)	Ownership by the Company		Direct or Indirect Ownership by Directors, Supervisors, Managers		Total Ownership	
	Shares (thousands)	%	Shares (thousands)	%	Shares (thousands)	%
Holtek Semiconductor Holding (BVI) Ltd.	15,253	100%	—	—	15,253	100%
Kingtek Semiconductor Holding (BVI) Ltd.	2,000	100%	—	—	2,000	100%
Sigmos Holdings Ltd.	200	100%	—	—	200	100%
MCU Holdings Ltd.	500	100%	—	—	500	100%
Holtek Semiconductor (India) Private Limited	6	0.10%	6,479	99.90%	6,485	100%
Holtek Investment Co., Ltd.	42,983	100%	—	—	42,983	100%

Note: Affiliated Enterprises are accounted for using equity method by the Company.

IV. Capital Overview

4.1 Capital and Shares

4.1.1 Source of Capital

Month/ Year	Par Value (NT\$)	Authorized Capital		Paid-in Capital		Remarks		
		Shares	Amount (NT\$ thousands)	Shares	Amount (NT\$ thousands)	Sources of Capital (NT\$ thousands)	Capital Increased by Assets Other than Cash	Other
1998/10	10	100,000	1,000,000	40,000	400,000	The Company was established and subscribed NT\$ 340,000 thousand for paid-in capital	Licensing Technology of in exchange in the stocks valued NT\$ 60,000 thousand	--
1999/04	10	100,000	1,000,000	100,000	1,000,000	Raise NT\$ 600,000 thousand for capital	None	--
2000/05	10	180,000	1,800,000	122,000	1,220,000	Retained earnings of NT\$ 220,000 thousand transferred to capital	None	Note 1
2001/04	10	180,000	1,800,000	153,380	1,533,800	Retained earnings of NT\$ 313,800 thousand transferred to capital	None	Note 2
2002/06	10	180,000	1,800,000	175,118.7	1,751,187	Retained earnings of NT\$ 217,387 thousand transferred to capital	None	Note 3
2003/06	10	260,000	2,600,000	183,400	1,834,000	Retained earnings of NT\$ 82,813 thousand transferred to capital	None	Note 4
2004/07	10	270,000	2,700,000	194,100	1,941,000	Retained earnings of NT\$ 107,000 thousand transferred to capital	None	Note 5
2005/06	10	290,000	2,900,000	205,409.5	2,054,095	Retained earnings of NT\$ 113,095 thousand transferred to capital	None	Note 6
2005/08	10	290,000	2,900,000	206,614.5	2,066,145	Employee stock options was exercised for NT\$ 12,050 thousand for capital	None	Note 7
2005/10	10	290,000	2,900,000	206,695	2,066,950	Employee stock options was exercised for NT\$ 805 thousand for capital	None	Note 7
2006/01	10	290,000	2,900,000	207,244.5	2,072,445	Employee stock options was exercised for NT\$ 5,495 thousand for capital	None	Note 7, 8
2006/04	10	290,000	2,900,000	207,451.5	2,074,515	Employee stock options was exercised for NT\$ 2,070 thousand for capital	None	Note 7, 8
2006/08	10	290,000	2,900,000	211,126.1	2,111,261	Retained earnings of NT\$ 36,746 thousand transferred to capital	None	Note 9
2006/08	10	290,000	2,900,000	212,100.1	2,121,001	Employee stock options was exercised for NT\$ 9,740 thousand for capital	None	Note 7, 8, 10

Month/ Year	Par Value (NT\$)	Authorized Capital		Paid-in Capital		Remarks		
		Shares	Amount (NT\$ thousands)	Shares	Amount (NT\$ thousands)	Sources of Capital (NT\$ thousands)	Capital Increased by Assets Other than Cash	Other
2006/10	10	290,000	2,900,000	212,210.35	2,122,103.5	Employee stock options was exercised for NT\$ 1,102.5 thousand for capital	None	Note 7, 8, 10
2007/01	10	290,000	2,900,000	212,470.1	2,124,701	Employee stock options was exercised for NT\$ 2,597.5 thousand for capital	None	Note 7, 8, 10
2007/04	10	290,000	2,900,000	212,759.35	2,127,593.5	Employee stock options was exercised for NT\$ 2,892.5 thousand for capital	None	Note 7, 8, 10
2007/08	10	290,000	2,900,000	216,487.05	2,164,870.5	Retained earnings of NT\$ 37,277 thousand transferred to capital	None	Note 11
2007/08	10	290,000	2,900,000	217,550.8	2,175,508	Employee stock options was exercised for NT\$ 10,637.5 thousand for capital	None	Note 7, 8, 10
2007/11	10	290,000	2,900,000	217,843.3	2,178,433	Employee stock options was exercised for NT\$ 2,925 thousand for capital	None	Note 7, 8, 10
2008/02	10	290,000	2,900,000	218,005.3	2,180,053	Employee stock options was exercised for NT\$ 1,620 thousand for capital	None	Note 7, 8, 10
2008/04	10	290,000	2,900,000	218,297.3	2,182,973	Employee stock options was exercised for NT\$ 2,920 thousand for capital	None	Note 7, 8, 10
2008/09	10	300,000	3,000,000	220,470.4	2,204,704	Retained earnings of NT\$ 21,731 thousand transferred to capital	None	Note 12
2008/09	10	300,000	3,000,000	220,910.4	2,209,104	Employee stock options was exercised for NT\$ 4,400 thousand for capital	None	Note 7, 8, 10
2008/11	10	300,000	3,000,000	220,955.15	2,209,551.5	Employee stock options was exercised for NT\$ 447.5 thousand for capital	None	Note 7, 8, 10
2009/03	10	300,000	3,000,000	220,997.4	2,209,974	Employee stock options was exercised for NT\$ 422.5 thousand for capital	None	Note 7, 8, 10
2009/04	10	300,000	3,000,000	221,180.9	2,211,809	Employee stock options was exercised for NT\$ 1,835 thousand for capital	None	Note 7, 8, 10
2009/08	10	300,000	3,000,000	222,087.7	2,220,877	Retained earnings of NT\$ 9,068 thousand transferred to capital	None	Note 13

Month/ Year	Par Value (NT\$)	Authorized Capital		Paid-in Capital		Remarks		
		Shares	Amount (NT\$ thousands)	Shares	Amount (NT\$ thousands)	Sources of Capital (NT\$ thousands)	Capital Increased by Assets Other than Cash	Other
2009/08	10	300,000	3,000,000	222,217.45	2,222,174.5	Employee stock options was exercised for NT\$ 1,297.5 thousand for capital	None	Note 8
2009/11	10	300,000	3,000,000	222,301.45	2,223,014.5	Employee stock options was exercised for NT\$ 840 thousand for capital	None	Note 8
2010/02	10	300,000	3,000,000	222,347.45	2,223,474.5	Employee stock options was exercised for NT\$ 460 thousand for capital	None	Note 8
2010/04	10	300,000	3,000,000	222,556.2	2,225,562	Employee stock options was exercised for NT\$ 2,087.5 thousand for capital	None	Note 8, 14
2010/08	10	300,000	3,000,000	222,666.2	2,226,662	Employee stock options was exercised for NT\$ 1,100 thousand for capital	None	Note 14, 15
2010/11	10	300,000	3,000,000	222,798.7	2,227,987	Employee stock options was exercised for NT\$ 1,325 thousand for capital	None	Note 14, 15
2011/02	10	300,000	3,000,000	223,044.2	2,230,442	Employee stock options was exercised for NT\$ 2,455 thousand for capital	None	Note 14, 15
2011/05	10	300,000	3,000,000	223,339.7	2,233,397	Employee stock options was exercised for NT\$ 2,955 thousand for capital	None	Note 14, 15
2011/08	10	300,000	3,000,000	223,598.45	2,235,984.5	Employee stock options was exercised for NT\$ 2,587.5 thousand for capital	None	Note 14, 15
2013/08	10	300,000	3,000,000	223,680.45	2,236,804.5	Employee stock options was exercised for NT\$ 820 thousand for capital	None	Note 15
2013/11	10	300,000	3,000,000	224,941.2	2,249,412	Employee stock options was exercised for NT\$ 12,607.5 thousand for capital	None	Note 15
2014/01	10	300,000	3,000,000	226,168.2	2,261,682	Employee stock options was exercised for NT\$ 12,270 thousand for capital	None	Note 15

Note 1: The Tai-Cai-Zheng-Yi No. 36989 letter dated May 15, 2000.

Note 2: The Tai-Cai-Zheng-Yi No. 116941 letter dated April 3, 2001.

Note 3: The Tai-Cai-Zheng-Yi No. 126989 letter dated May 17, 2002.

Note 4: The Tai-Cai-Zheng-Yi No. 0920128586 letter dated June 27, 2003.

Note 5: The Tai-Cai-Zheng-Yi No. 0930128187 letter dated May 25, 2004.

Note 6: The Jin-Cuan-Zheng-Yi No. 0940125322 letter dated June 24, 2005.

Note 7: The Tai-Cai-Zheng-Yi No. 0920110590 letter dated April 1, 2003.

Note 8: The Tai-Cai-Zheng-Yi No. 0920138382 letter dated August 22, 2003.

Note 9: The Jin-Cuan-Zheng-Yi No. 0950127323 letter dated June 29, 2006.

Note 10: The Tai-Cai-Zheng-Yi No. 0930128187 letter dated June 25, 2004.

Note 11: The Jin-Cuan-Zheng-Yi No. 0960031838 letter dated June 25, 2007.

Note 12: The Jin-Cuan-Zheng-Yi No. 0970034273 letter dated July 9, 2008.

Note 13: The Jin-Cuan-Zheng-Fa No. 0980031086 letter dated June 23, 2009.

Note 14: The Jin-Cuan-Zheng-Yi No. 0940135791 letter dated August 26, 2005

Note 15: The Jin-Cuan-Zheng-Yi No. 0960073308 letter dated December 31, 2007

Share Type	Authorized Capital			Remarks
	Issued Shares	Un-issued Shares	Total Shares	
Common stock	226,168,200 shares	73,831,800 shares	300,000,000 shares	Listed stock

Related information of the general declaration system: Not applicable.

4.1.2 Status of Shareholders

As of March 31, 2019

Item	Government Agencies	Financial Institutions	Other Juridical Persons	Domestic Natural Persons	Foreign Institutions & Natural Persons	Total
Number of Shareholders	1	7	81	14,004	215	14,308
Shareholding (shares)	289,000	5,536,000	45,746,106	93,426,567	81,170,527	226,168,200
Percentage (%)	0.13%	2.45%	20.22%	41.31%	35.89%	100%

4.1.3 Shareholding Distribution Status

1. Common Shares

As of March 31, 2019

Class of Shareholding (Unit: Shares)	Number of Shareholders	Shareholding (Shares)	Percentage (%)
1 ~ 999	4,504	268,271	0.12
1,000 ~ 5,000	7,633	14,582,037	6.45
5,001 ~ 10,000	974	7,440,556	3.29
10,001 ~ 15,000	327	4,049,329	1.79
15,001 ~ 20,000	199	3,652,041	1.61
20,001 ~ 30,000	182	4,503,602	1.99
30,001 ~ 50,000	149	5,935,556	2.62
50,001 ~ 100,000	141	10,313,497	4.56
100,001 ~ 200,000	81	11,785,032	5.21

Class of Shareholding (Unit: Shares)	Number of Shareholders	Shareholding (Shares)	Percentage (%)
200,001 ~ 400,000	46	12,758,941	5.64
400,001 ~ 600,000	20	9,726,618	4.30
600,001 ~ 800,000	7	4,631,900	2.05
800,001 ~ 1,000,000	5	4,426,762	1.96
1,000,001 or over	40	132,094,058	58.41
Total	14,308	226,168,200	100.00

2. Preferred Shares: None.

4.1.4 List of Major Shareholders

Shareholders holding 5% or more of total shares or in the Top 10 stock option holding ratio list

As of March 31, 2019; Unit: Shares

Shareholder's Name	Shareholding	
	Shares	Percentage
United Microelectronics Corporation	24,644,257	10.90%
iSharesIV Public Limited Company	8,272,000	3.66%
Wu, Chi-Yung	7,665,809	3.39%
	7,435,500	3.29%
Gau, Kuo-Tung	6,701,176	2.96%
Qi Sheng Investment Ltd.	5,423,703	2.40%
Morgan Stanly & Co. International Plc.	5,045,782	2.23%
Shih Kong Life Insurance Co., Ltd.	4,625,000	2.04%
National Culture and Arts Foundation	4,538,000	2.01%
Bo-Ding Investment Ltd.	4,484,841	1.98%

4.1.5 Related information of market price per share, net value, earnings and dividends for the past two years

Unit: NT\$

Items	2017	2018	01/01/2019-03/31/2019
Market Price per Share			
Highest Market Price	84.50	88.00	75.00
Lowest Market Price	49.20	55.50	56.20
Average Market Price	59.11	72.45	70.09
Net Worth per Share			
Before Distribution	84.50	18.68	—
After Distribution	49.20	Note 5	—
Earnings per Share			
Weighted Average Shares (thousand shares)	226,168	226,168	226,168
Earnings Per Share	4.10	4.70	—
Dividends per Share			
Cash Dividends	4.10	Note 5	—
Stock Dividends			
• Dividends from Retained Earnings	—	—	—
• Dividends from Capital Surplus	—	—	—
Accumulated Undistributed Dividends (Note 1)	—	—	—
Return on Investment			
Price / Earnings Ratio (Note 2)	14.42	15.41	—
Price / Dividend Ratio (Note 3)	14.42	Note 5	—
Cash Dividend Yield Rate (Note 4)	6.94%	Note 5	—

Note 1: For the equity shares issuance criteria, if there are requirements that dividends not distributed for a specific year can be carried over to the year with earnings, the dividends that have not been paid up to the said year with earnings shall be disclosed separately.

Note 2: Price / Earnings Ratio = Average Market Price / Earnings per Share

Note 3: Price / Dividend Ratio = Average Market Price / Cash Dividends per Share

Note 4: Cash Dividend Yield Rate = Cash Dividends per Share / Average Market Price

Note 5: The 2018 earnings distribution hasn't been approved by the 2019 Annual Shareholders' Meeting so that the figures are not available to be presented.

4.1.6 Dividend Policy and Implementation Status

(1) Dividend Policy

When allocating the net profits for each fiscal year, the Company shall distribute 5~15% of profit of the current year distributable as employees' compensation and no more than 1.5% of profit of the current year distributable as remuneration of directors. However, the company's accumulated losses shall have been covered.

If the Company has profit as a result of the yearly accounting closing, the Company shall first pay taxes, offset its losses in previous years and set aside a legal capital reserve at 10% of the profits left over, until the accumulated legal capital reserve has equaled the total capital of the Company, then set aside special capital reserve in accordance with relevant laws or regulations or as requested by business. Any rest balance, added to the accumulated undistributed earnings in previous years, the Board of Directors shall be allocated according to shareholders' meeting resolution.

The amount of dividends distributed to shareholders shall be no less than 50% of the distributable earnings of the year concerned and no less than 50% of the shareholder's dividends shall be in the form of cash.

(2) Proposed Distribution of Dividend

The portion of Unappropriated retained earnings was proposed to distribute cash of NT\$822,347,575 to shareholders. According to the register of shareholders on the record date, the cash distribution is approximately NT\$3.636 per share. Cash payment shall be rounded to one NTD. The portion of legal reserve was proposed to distribute cash of NT\$104,942,045 to shareholders. According to the register of shareholders on the record date, the cash distribution is approximately NT\$0.464 per share. The total amount of NT\$927,289,620 was proposed to distribute to shareholders and the cash distribution is approximately NT\$4.10 per share.

4.1.7 Impacts of free share assignment intended through the current shareholders meeting on the Company's operational performance and earnings per share: None.

4.1.8 Employee Bonus and Directors' and Supervisors' Remuneration

1. Information Relating to Employee Bonus and Directors' Remuneration set out in the Company's "Articles of Incorporation":

When allocating the net profits for each fiscal year, the Company shall distribute 5~15% of profit of the current year distributable as employees' compensation and no more than 1.5% of profit of the current year distributable as remuneration of directors. However, the company's accumulated losses shall have been covered.

2. This forecast column of the employee and the amount of directors remuneration for assigned to the column base and in stock for the number of shares of calculation basis and actual dispatch if amount and estimated the number of columns diverge from the accounting treatment of:

The company shall, in accordance with the provisions of the articles of association of the company, provide remuneration for employees and directors in proportion to the current period expenses. If there is any difference between the amount as determined by the board of directors or the board of shareholders and the estimated amount, the difference shall be adjusted in the resolution year as to the current period expenses.

3. The Board of Directors has approved the remuneration:

(1) The annual remuneration for employees and directors which has been approved by the

Board of Directors, shall be NT\$129,225,211 and NT\$14,248,357, respectively, which are not different from the annual estimated amount recognized as current expenses.

- (2) The percentage of employee remuneration distributed by shares from the total amount of Net Income and total employee remuneration of entity or individual financial reports for the current period: None.
- 4. The actual distribution of the remuneration of employees and directors in the previous year (including the number of shares distributed, the amount and the share's market price), and the difference between such distribution and the remuneration of employees and directors shall be clearly stated, including the number of differences, the reasons for the difference and the follow-up situations:

The recorded amount of employees' bonuses in 2017 was NT\$111,567,218, and the recorded amount of directors' compensation in 2017 was NT\$12,286,360, and all paid in cash. The actual remunerations to directors in cash amounted to NT\$12,176,360 in 2017, and the difference is an estimated calculation between estimated and actual distribution amount of employee bonus and compensation to directors.

4.1.9 Buyback of the Company stock: None.

4.2 Status of Corporate Bonds: None.

4.3 Status of Preferred Shares: None.

4.4 Status of Global Depository Receipts: None.

4.5 Status of Employee Stock Option Plan (ESOP): None.

4.6 Status of New Restricted Employee Shares: None.

4.7 Status of New Shares Issuance in Connection with Mergers and Acquisitions: None.

4.8 Financing Plans and Implementation: None.

V. Operational Highlights

5.1 Business activities

5.1.1 Business scope

1. Main areas of business operations

The Company is a leading Taiwan designer of professional ICs whose business area is mainly focused in the design and sales of microcontrollers and peripheral devices. The company's product range and related design services are driven largely by customer and market requirements.

2. Main revenue distribution

Product Category \ Year	2018
MCUs	76%
Peripheral ICs	24%
Total	100%

3. Present product and service items

The Company's main development focus is in the area of microcontrollers (MCUs) and peripheral ICs. The main application areas include a full range of standard and application specific MCUs in addition to devices for screen displays, power management, computer peripherals, communication, RF, memory, analog, touch switches, voice, health measurement, security, motor control, Internet of Things (IoT) and financial applications, etc. This full range of devices not only meets the requirements for a wide scope of global applications, but also focusses on the needs of specific geographical areas.

In addition, the company also provides a custom design service for customer requested ASIC MCUs for their individual specific application requirements. This is in addition to the design of other ASSP MCUs which are designed to meet the needs of specific application areas.

4. New product development and service

To provide customers with a more complete range of products and technical services, the company has expanded its applications to include 4C+MG (Medical & Green), while providing a range of professional services to meet the customer's diverse requirements for product functionality, cost effectiveness, timeliness and product protection, etc. The company's main products include the following:

- (1) AEC-Q100 105°C high temperature certification required to extend its products into the automotive electronic specification area
- (2) 24-bit Delta Sigma A/D with LCD Flash MCUs
- (3) Advanced Touch Key Flash MCUs with high noise immunity features to meet the dynamic CS 3V CS requirements
- (4) Low power wearable device Touch Flash MCUs

- (5) Health measurement MCUs and solutions
- (6) H-Bridge induction cooker and microwave MCUs and solutions
- (7) Fast charger and identification MCUs and solutions
- (8) Middle power wireless charger MCUs and solutions
- (9) Li-battery management during charge/discharge operations and solar battery management and their solutions
- (10) Power battery charger MCUs and solutions
- (11) AC Voltage Regulator AVR MCUs and solutions
- (12) Security and fire protection MCUs and solutions
- (13) Ultra-Low Power RTC Flash MCUs
- (14) High performance and high capacity ROM Flash 8-bit MCUs
- (15) CAN Bus Flash MCUs and solutions
- (16) TDC Ultrasonic vehicle reversing ASSP MCUs
- (17) Ultrasonic distance measurement/Ultrasonic parking assist Flash MCUs
- (18) RF Sub-1GHz and OOK+FSK wireless transceiver Flash MCUs and SoC solutions
- (19) 5.x low-power Bluetooth (BLE) Arm® Cortex™ M0+ Flash MCUs
- (20) 32-bit MCUs for IoT application platform and solutions
- (21) 32-bit MCUs for low power consumption Bluetooth(BLE) platform and solutions
- (22) 32-bit Arm® Cortex™-M0+ core MCUs and 32-bit 96 MHz Arm® Cortex™-M3 core MCUs
- (23) High-speed Duplex CIS Module Digital Front-end Processor and solutions
- (24) High precision biological detection analog front end processor (AFE) with programmable digital filter (DF) and fast Fourier transform (FFT)

5.1.2 Industry Overview

1. Industry Overview and Development

(1) Global Semiconductor Market

According to the Global Semiconductor Trade Statistics Association (WSTS), the global semiconductor sales in 2018 reached a figure of US\$477.9 billion (YoY +15.9%). Among this, the global sales of integrated circuits reached US\$343.2 billion in 2018 (YoY +24%), which recorded the second largest double-digit growth record since 2010. With the booming development of products in the 4C+MG (Medical & Green) application areas, coupled with the demand for intelligent products and the need for low power consumption, it is estimated that the global sales of all kinds of semiconductor products will continue to grow in 2019.

In addition, the market research institute, IC Insights, reported that MCU unit shipments reached 29.1 billion units in 2018 with an annual growth rate of 13%. In 2018, MCU revenue reached US\$17.8 billion with an annual growth rate of 6%. Among them, 32-bit MCUs have accounted for 57%, and it is estimated that in 2023, with the increasing design requirements for processing high-performance computing applications, sensors and various types of intelligent devices connected to the IoT

areas, 32-bit MCUs will expand more rapidly into increasingly various application fields. The CAGR is estimated to reach 8.9%.

(2) Taiwan Semiconductor Market

The Industrial Economics and Trends Research Center, IEK, which is entrusted by the Taiwan Semiconductor Association, has provided the following Taiwan Semiconductor industry review and outlook:

The IEK statistics show that Taiwan's IC industry output value reached NT\$2,619.9 billion in 2018, an increase of 6.4% over 2017. Among this figure, the IC design industry output value was NT\$641.3 billion which is an increase of 3.9% when compared with 2017. The IC manufacturing industry figure was NT\$1,485.6 billion which is an increase of 8.6 when compared with 2017. As for wafer production, the figure was NT\$1,285.1 billion which amounts to a 6.6% increase in 2018. The IC packaging industry figure was NT\$3,445 which is an increase of 3.5% over 2017. As for the IC test industry, the figure is NT\$148.5 billion which shows an increase of 3.1% from 2017.

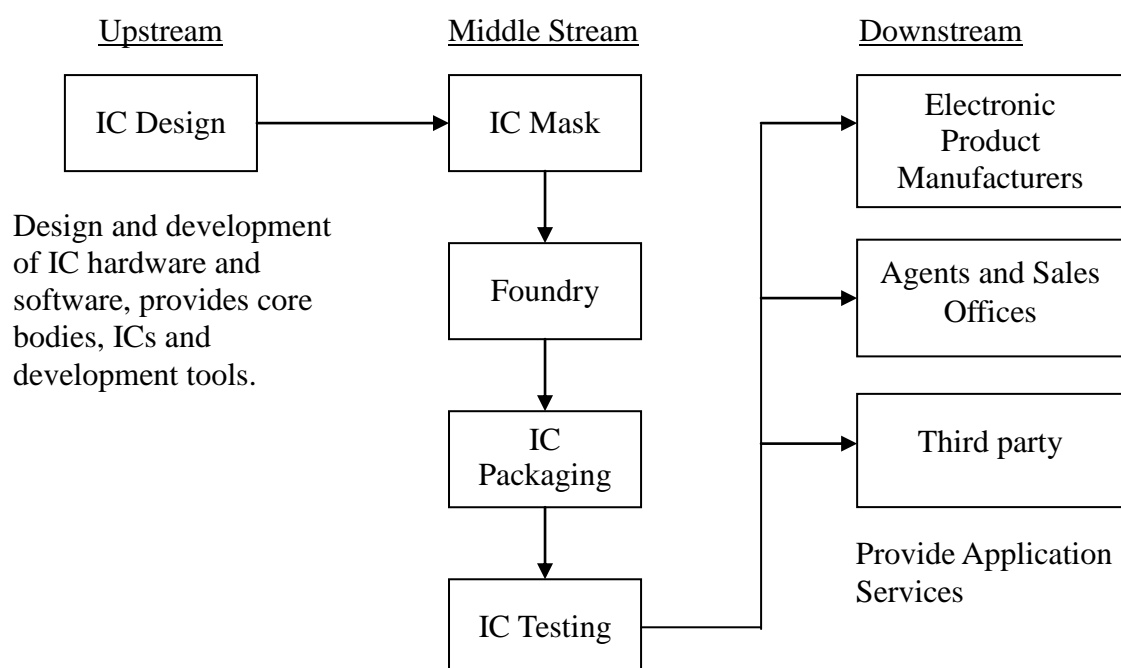
Looking ahead to 2019, and although smartphones are showing weakening demand, fortunately memory, automotive, intelligent, household, security and the Internet of things applications are showing promise. The forecasts for 2019 display driver IC device shipments are also expected to grow. The SEMI forecast Taiwan IC design industry output value of 2019 is expected to total NT\$667.5 billion, an annual growth of 4.1%, when compared to that of 2018.

(3) China's Semiconductor Market

According to the China semiconductor industry association statistics, which have been affected by the China-US economic and trade relations as well as market growth, in 2018, China's IC design industry sales of RMB251.9 billion, grew by 21.5%, when compared to 2017. According to customs statistics, China imported 417.57 billion dice integrated circuits in 2018, showing an increase of 10.8% when compared to 2017. Imports reached an amount of US\$312.06 billion, showing an increase of 19.8% when compared to 2017. As for exports, accumulative exports of integrated circuits totaled 217.1 billion dice in 2018, up 6.2% from 2017. Exports rose 26.6% to US\$84.646 billion. In 2018, China's IC trade deficit further expanded to US\$227.4 billion, up by 17.7%, from US\$193.26 billion in 2017. In the future, due to the strong domestic demand in China and the preference for the domestic IC industry for the production of entry to mid-level product lines, high-end products will still need to be imported from overseas.

2. Industry Upstream, Middle Stream and Downstream Relations

IC Design Industry Structure



3. Product Development Trends

The Company's product range encompasses a wide range of applications, including computer peripherals, communications, consumer, smart home appliances, industrial equipment, health measurement and IoT products.

Main Product	Application Area
MCUs	1. Arm® Cortex® -M core series 32-bit Flash MCUs 2. HT8 core series 8-bit Flash MCUs 3. BS series 8-bit touch key Flash MCUs
RF SoC MCU products	1. Wireless intercoms, vehicle alarms, bicycle anti-theft, smart home wireless remote control and security 2. Low-power Bluetooth (BLE) for health measurement products, home appliances and smart device information enquiry applications 3. Sub-1GHz spread spectrum wireless communication LoRa module products, intelligent meters, IoT products and applications
Home Appliance products	Wide range of small household appliance microcontrollers, home appliance panel display control MCUs and various home appliances touch key MCUs
Computer Peripherals	Keyboards, Mice, USB Bridge, PDF Data Loggers, etc.

Main Product	Application Area
Display Products	Electronic meters, audio/video/home appliance displays, vehicle displays, electronic shelf label displays, wearable product displays and constant current LED display, etc.
Power Management Products	Home appliance power boards, chargers, smoke sensors, mobile power, wireless charging, smart meters, lithium battery personal care products such as razors, nasal hair cutters, cleansing products, electric hair clippers and flashlight ASSP MCUs
Financial Products	Dynamic password generators, smart card readers, financial instruments such as for checking currency, credit cards, identity cards and other areas such as for sorting machines, ATMs, EPD Flash MCUs and identity card identification instruments, etc.
IoT Products	Based on Wi-Fi and BLE (Low power Bluetooth) 32-bit Flash MCUs to provide complete solutions for small home appliances, health monitoring, medical care, smart bracelets and other IoT related products. Uses dual-core 32-bit DSP function to provide system solutions such as facial recognition and license plate recognition
Safety and Security Products	Smoke and fire detector alarms, PM2.5 sensors, CO/GAS detection alarms and PIR/uWave sensors, etc.
Health Measurement Products	Blood pressure meters, blood glucose meters, thermometers, electronic weight scales, body fat scales, infrared temperature measurements, atomizers etc.

4. Competitive Situation

Due to a low threshold for setting up a company in China, with the Chinese government issuing its "Outline for the Development of the National Integrated Circuit Industry" and the "Made in China 2025" campaign, has resulted in a powerful force for the rapid development of China's IC industry. As of 2018, there are about 1,698 IC design companies in China showing an increase of 318 companies when compared to 2017. This situation has created increased horizontal competition in Taiwan.

According to a HIS research report, due to the stability, reliability and easy maintenance of 8-bit MCUs in IoT and wearable devices, global MCU manufacturers continue to increase the expansion of applications using 8-bit MCUs. In 2018, the 8-bit MCU market size has reached US\$7.8 billion. In addition, Mordor Intelligence, the market research institute estimates that the MCU market will grow to nearly \$10 billion by 2023, with a compound annual growth rate of 5.11%. These are mainly used in automotive, consumer goods, household appliances, medical care, industrial electronics, data processing and communication industries, which are requiring an increasing numbers of 8-bit MCUs to perform simple data processing.

5.1.3 Research and Development

1. Research and development expenses for the previous year for the most recent year until the end of the annual report

Units: NT\$ Thousands

Timer Period	2018
Research and Development Expense	783,088
Operating Income	4,862,807
R&D expense as a percentage of operating income	16%

2. Development of Successful Technologies or Products

Each year the company invests 15% to 20% of its annual turnover in new products and new technologies. Relying on the continuous release of new products has created stable growth and profit increases.

During 2018, the main research and development achievements were based on MCUs, which when added to its peripheral ICs series of devices, can provide a comprehensive set of solutions and services. A summary of the different applications can be summarised as follows:

(1) MCU New Generation 8-bit MCUs

- A. 1.8V ~ 5.5V low voltage Flash type series: These support lower operating voltages and include an integrated A/D converter and LCD function for battery powered products.
- B. Integrated multi-stage operational amplifier, comparator and voltage regulator MCUs: These reduce PCB area, simplify the circuit structure, reduce product size, reduce costs and allows for more simplified production. Suitable for products which require signal amplification, such as remote controls, parking sensors, rangefinders, toys, instruments, etc.
- C. Touch key MCU series: Applied for use in the growing amount of applications that are using touch keys. Flash touch key MCUs all have ICP (In Circuit Programming) functions and include an integrated EEPROM, allowing for simple program modifications and adjustments of parameters and settings.
- D. Low-power standard series (TinyPower™ MCU): This series has reached the level of international manufacturers. Their lower power consumption is in line with environmental protection trends making them suitable for various types of battery powered portable products.
- E. Health measurement products: These include blood pressure, blood sugar, blood oxygen, body temperature, body weight, body fat, and other health care related products. Related products include a dedicated MCU which includes a full set of integrated functions thus eliminating the need for large numbers of external components. A 24-bit high resolution ADC is also integrated along with USB and voice interfaces. These health care products provide great assistance for the health care of elderly people.
- F. Servo motor MCUs: These devices can be divided into PWM servos and UART servos. There is also a development platform which greatly simplifies the development of servo based products. A communication protocol for UART robot servo control has also been developed which has been evaluated by intelligent robot manufacturers.

- G. Brushless DC motor (BLDC) motor control MCUs: These are applied in areas such as energy-saving fans having the benefits of energy-saving, linear speed control and low noise.
- H. Wireless charging product series: In addition to the 5W wireless charging low-power products that have already been developed, new WPC medium-power wireless charging ASSP MCUs can meet the Qi 15W power requirements.
- I. Multi-channel RGB LED MCUs: These constant current RGB LED drivers, can implement millions of RGB color and illumination level changes. These are suitable for smart speakers, mouse pads, e-sports headset, e-sports mouse as well as a range of other products.

The above series of MCUs meet with industrial specifications (wide temperature operation range of $-40^{\circ}\text{C} \sim +85^{\circ}\text{C}$), have anti-noise capabilities and a similar same level of product quality as that from leading European and American manufacturers. The product quality has been widely recognised by customers.

(2) Arm® Cortex® M Series 32-bit MCUs:

- A. Arm® Cortex® - M0+ core 2.5V~5.5V Flash MCU
- B. Arm® Cortex® - M3 core 96 MHz Flash MCU
- C. Arm® Cortex® - M0+ core 60MHz Flash MCU

(3) Consumer Products

- A. Flash Type Voice MCU: Integrated functions such as 16-bit ADC/DAC and SPI interfaces with integrated hardware voice compression combine to reduce the customer learning threshold thus increasing product flexibility and functional integration.
- B. Touch + Voice Flash MCUs: Integrated functions such as 16-bit ADC/DACs and SPI interfaces with integrated software voice decompression technology as well as integrated Holtek capacitive touch switches and software LCD functions, combine to reduce the customer learning threshold thus increasing product flexibility and functional integration.
- C. Touch + LCD/LED Flash MCU: Combined capacitive touch switches and direct driving of LCDs and high current LEDs, also UART serial communication interfaces, RTC real-time clock function and high precision 12-bit analog-to-digital converters. In addition to being used in general consumer products they are also suitable for industrial thermostats and other industrial products.
- D. Ultrasonic atomiser Flash MCUs: Integrated automatic frequency tracking, water empty power-on, water shortage detection, etc. Can be used with a range of different atomising frequencies, such as 100KHz, 1.7MHz, 2.4MHz, 3MHz, etc. Complete support for atomisers, effectively reducing customer costs.
- E. Complete 2.0 generation power charger control Flash MCUs: fully integrated dual sets of OPAs and programmable DACs. The MCU controls the primary side PWMIC using an OPA and generates both constant voltage (CV) and constant current (CC) hardware control. For use in e-bike or power tool lead acid/lithium battery charger products.
- F. Power management and driver products:
 - (A) High withstand voltage, high accuracy, low power and high current drive linear

regulators with operating voltages up to 40V. High $\pm 1\%$ accuracy with less than 1 μ A operating current and up to 500mA current drive linear regulator. Products can be widely applied for use in fire safety, industrial control, financial products, automotive electronics, etc. Used to extended battery life and to achieve green energy savings.

- (B) Low-power/high-current drive boost converter: ultra-low 0.7V operating voltages up to 3A output current. Suitable for use in dry battery and lithium battery related applications such as electric razors, health products, mobile power, wireless networking for water/electricity/gas/heat meter applications. Provides extended battery life and offers a stable and reliable power supply
- (C) High withstand voltage and high current drive buck converters with operating voltage up to 52V and a maximum 3A output current. Can be widely used in applications such as smart meters, electric motors and wireless routers. Provides a stable and reliable system power supply.
- (D) Low-power/low-cost AC-DC voltage converters with maximum withstand voltage up to 700V. These provide cost-competitive solutions and can be widely used in small household appliances such as induction cookers, ceramic stoves, coffee machines, rice cookers etc.
- (E) High power factor/high current drive AC-DC LED lighting drivers with integrated QR mode operation and up to 0.98 power factor. Up to 200 watts of LED loading and can be used in light bulbs as well as a range of other lighting applications including smart LED lights etc.
- (F) LED lighting driver ICs: used in general LED lighting and can be applied for use in T8 lamps, E27 bulbs, etc.
- (G) DC motor drive ICs: used for valve control of water meters, gas meters, heat meters and dc motor drive applications such as electronic door locks. Can drive up to 24V motors with a drive peak current of 2.5A and possesses comprehensive IC protection functions.
- (H) Multi-section lithium battery protection simulation front-end IC. Applied for use in handheld power tools, vacuum cleaners, water sprayers and other products. Can provide low-cost, highly integrated and complete lithium battery protection system.
- G. Real Time Clock IC: Used in a variety of products that require to know the present time, such as electricity meters, water meters, gas meters, attendance and access control equipment, cash registers, digital photo frames, office automation products, home appliances, computer products, etc.
- H. Remote Control Encoder ICs: Used in vehicle alarms, home security and door alarms, household appliances, etc. Anti-theft and remote control of gates, curtains, doorbells and home appliances.
- I. Ultrasonic Flowmeter ASSP MCUs: Integrated TDC analog IPs and SPI/UART/I2C communication interfaces, integrated flow algorithms and temperature measurement as well as other technologies to reduce the user learning threshold.
- J. USB PD 32-bit MCUs: Used in 30W~45W car charger products, synchronous buck-boost management and safety protection mechanisms to achieve high conversion efficiency and simplified circuitry, etc.

- K. Fast wireless charging ASIC MCUs: Used in 10W wireless charging solutions.
 - L. 400mA linear charging IP: Integration function within 8-bit MCU SoC used in lithium battery products.
 - M. High-voltage bus data transmission IC: includes integrated analog voltage modulation data input and current modulation data output providing data modulation on power lines.
 - N. Dual-core 32-bit DSP IC: integrated dual-core DSP processor for image processing accelerator, neural networks and DDR controller, etc. Provides application solutions for image identification such as banknotes, documents, faces, license plates, etc.
- (4) Computer Peripheral Products
- A. USB 2.0 Full Speed MCU Series.
 - B. USB Bridge Series ICs.
 - C. High Speed CIS/CCD Analog Front End Processor (AFE) Series.
 - D. USB 2.0 Low Speed MCU Series.
 - E. PDF Data Logger MCUs.
 - F. Gaming Keyboard/Mouse RGB LED ASSP Flash MCUs.
- (5) Wireless Products
- A. Wireless intercom control: internal DSP and audio processor SoC Flash MCUs, used in specialised FRS intercoms.
 - B. Wireless remote controllers: integrated 315M/433M/868M/915MHz ISM frequency band RF transmitters and ASK/OOK/FSK/GFSK encoders, integrated into high performance Flash MCUs to provide RF and MCU control in a single SoC IC.
 - C. Remote controllers: 315M/433M/868M/915MHz RF receivers and receiver super-regeneration and super-heterodyne mode circuits, demodulate OOK/FSK reception and Flash MCU applications, aimed at wireless transmission remote control products for integrated one-way and two-way control applications.
 - D. 2.4GHz wireless MCUs: combined 2.4G RF circuit and Flash MCU, used in high noise resistant dual direction communication applications etc.
 - E. Low power Bluetooth (BLE) MCUs: Integrated high-performance RF, modem and 32-bit M0+Flash MCU with fully integrated DC/DC converter and LDO to support a wide range of single power supply applications, suitable for low-power health and medical products, home appliances and smart devices etc.
 - F. NFC Flash MCUs

5.1.4 Long-term and Short-term Development

1. Short term development plans

(1) Marketing and Operating Strategy

With over 30 years of experience in the IC design industry, the company's management team is well experienced with both customer and market needs. The company also has the full support of several external fabs, packaging and testing plants in addition to a local sales and technology presence in Taiwan, China and the USA. This all combines to provide the company with a high level of product

competitiveness.

- A. Excellent product quality – has excellent electrostatic discharge protection and anti-noise abilities.
- B. Rapid product delivery times.
- C. Superior cost/performance ratios.
- D. Can provide both OTP (one time programming) and Flash type MCUs.
- E. Quick response local technical service.
- F. Flexible ASSP and ASIC MCU design service.
- G. Professional development tools and efficient C compiler.

(2) Production Strategy

- A. Cooperate with external manufacturers such as major foundries, packaging plants, test plants, etc. to obtain sufficient capacity and cost competitiveness.
- B. Establish platforms with partner manufacturers for data collection to be able to monitor and control progress and volumes to reduce inventory and effectively control stocks.

(3) Product Strategy

- A. The Company's main product development arena is located in the 8-bit and 32-bit MCU area, which was added to its range of complimentary MCU peripheral components provides extensive and flexible solutions. This wide range of solutions provides customers with strong market competitiveness.
- B. The Company's strategic products form the mainstay of the consumer market, as well as introducing niche products and providing differentiated services.
- C. The Company's overall system cost outlook exists to assist customers achieve reduced overall costs and achieve a win-win situation for all.

(4) Development Strategy

The Company will continue to use its present MCU core architecture for different process platforms and by using specialised IP technologies it will be able to implement small SoCs. By improving the device noise rejection and electrostatic protection capabilities, the company will be able to match the specification of MCU suppliers in the US, Japan and Europe. This will enable it to meet the 105 °C high temperature AEC-Q100 certification requirements enabling it to extend its products into the automotive electronic specification area.

2. Long term development plans

(1) Marketing and Operation Strategy

The Company's development strategy will be focused on markets incorporating home appliances, health measurement, PC-related peripherals, security, motor control and financial products. Here it will develop high-quality microcontrollers for international markets, providing excellent product quality and fast on-site services. This will not only meet the needs of global customers, but also successfully introduce HOLTEK microcontrollers into the world's leading home appliance manufacturers and establish a global professional Holtek brand image. In addition to the constant improvement of its range of 8-bit MCU devices, it will continue to develop 32-bit MCUs, increasing its

overall market share. In 2018, the company shipped over 16 million 32-bit MCU dice, showing an increase of 42% (YoY). The future 32-bit MCU application range covers an increasing application area. With a variety of professional cooperative partners, an extension of ecological systems and through the introduction of innovative design, will accelerate the development of products with forward-thinking features required by end using customers.

(2) Production Strategy

- A. Have a response to the early stages of industrial boom cycles to reduce their impact.
- B. Continuous use of advanced processes, implement cost reductions to improve yield and market competitiveness.

(3) Product Strategy

- A. Lock in domestic and overseas large company potential markets for product promotion and service.
- B. Move into higher-level or high value-added applications, such as high-end household appliances, industrial equipment, security products, automotive electronics and other areas.

(4) Development Strategy

Improve overall product design capabilities by developing standardised and modular development technologies in response to market application requirements. This will reduce development times and costs as well as accelerating time-to-market for new products resulting in increased price competitiveness.

(5) Product Development Areas:

- A. Continue developing its standard range of 32-bit ARM core MCUs which include functions such as LCD drivers, UART/USB/SPI/I2S communication interfaces, PWM drivers, CMOS sensors, operation amplifiers, etc.
- B. Continue developing its special purpose range of 32-bit ARM core MCUs for areas such as image recognition, motor control, fingerprint recognitions, encryption/decryption, CRC computing, CAN bus, wireless IoT wearables, multimedia and wireless applications, music synthesizers, etc.
- C. Continue developing its standard 8-bit Flash MCUs, to include a full range of functions such as A/D and D/A converters, LCD/LED drivers, 24-bit high resolution delta-sigma A/D converters etc. voice applications
- D. Continue to increase its range of 8-bit Flash Special Purpose MCUs for areas such as health measurement, personal care, motor driving, touch switches, safety and security products, IoT products, wired and wireless charger products, home appliances, computer peripherals, ultrasonic applications, etc.
- E. Continued development of Wireless devices such as those for Bluetooth Low Energy (BLE), 2.4GHz transceivers, Sub-1GHz RF SoC Flash MCUs, encoders/decoders, etc.
- F. Expand its range of power management devices including higher current LDOs, high efficiency DC/DC converters, AC-DC converters etc.
- G. New development of lighting products such as AC/DC lighting drivers, LCD and LED controllers and drivers, etc.

- H. Develop AI image recognition ICs: Provides applications related to identification of banknotes, faces, objects and gestures, etc.
- I. MCU integrated AFE: Combines various sensor applications for the development of smart sensor products thus expanding the product application field.

5.2 Market, Production and Sales Overview

5.2.1 Market Analysis

1. Major Product Sales by Region:

Units: NT\$ Thousands

Region \ Year	2017		2018	
	Sales	Percentage (%)	Sales	Percentage (%)
Taiwan	557,865	12	484,264	10
China/HK	3,331,746	72	3,716,948	76
Overseas	725,306	16	661,595	14
Total	4,614,917	100	4,862,807	100

2. Market Share

The Company is mainly focused in the area of MCU and peripheral IC development. These devices are embedded intensely in huge numbers of products within a wide range of application fields. These applications not only include Consumer, Communication, Computers, Cars (4C) fields, but also non-volatile memory ICs, display driver ICs, power management ICs, analog ICs, ASSP/ASIC MCUs, and etc. Each product has a strong marketing position within highly competitive international markets.

According to IC Insights forecast, MCU revenues reached US\$18.6 billion in 2018. The Company's total MCU revenues of NT\$3.712billion (US\$123 million) in 2018, (exchange rate of NT\$30.136 per U.S. Dollar) accounted for about 0.7% of the MCU market. In addition, in 2018, total MCU shipments of the Company were 673 million dice, growing by 8%, compared to 2017. This accounts for 2% of the 2018 global MCU market share of 30.6 billion dice, analysed and reported by IC Insights. Looking forward to 2019, it is expected that the existing market share will continue to increase as the application breadth expands along with MCU demand. The Company will keep on increasing its targeted market share.

3. The Supply and Demand in the Market and the Future Growth

(1) Supply and Demand Situation

Microcontroller (MCU) provides high performance and cost-effective embedded solutions for smart, secure and booming IoT market due to their ease of use character, real-time operation and low power consumption. As market demand expands, the shortage situation of MCU ICs and delivery period for several MCU vendors has continuously extended since 2017. In addition, mainly due to the tight global 8-inch wafer foundry capacity and the continuous price increase of silicon wafer materials, global foundries have increased their prices resulting in increased production costs. The aforementioned factors weakened the whole semiconductor market since the second-half of 2018. Relying on global auto electronics and the Internet of things application requirements, the growth rate will not reduce dramatically. In 2019, the MCU market is expected to exhibit a moderate rise in the middle of 2019.

(2) Future Growth

According to the IC Insights research report, the annual compound growth rate for

MCU shipments in IoT applications will be 17% from 2017 to 2022. It also forecasts that there will be more than 3 billion items since 2020 along with the evolution of communication technologies which will connect these items together. In seeing this, the Company has launched MCUs with RF and Sensor integrations, including low power consumption Bluetooth (BLE) modules, LoRa modules and Sub-1 GHZ wireless communication modules to support Internet access and online streaming. In the future, artificial intelligence will be further integrated into daily life through the Internet of Things (IoT), which is known as "AIoT". Global MCU vendors should be upgrading their innovative technologies to encounter these big challenges and capture future growth momentum.

4. Competitive edge

The IC design industry is a knowledge-intensive industry with innovation technology. The major conditions of a healthy IC design industry are in having sufficient R&D employees, computer-aided designs and test equipment.

After many years of operation, the Company has accumulated a wealth of talented employees, expertise in innovative technology development and experience in product applications. Focusing on achieving the goals of mastering core technologies, designing a wide range of products and being creative in its approach to produce embedded products with stronger functions, higher quality, lower prices to meet customers' demands targeted at the future development needs of the industry.

(1) Strong R&D Ability and Development of Leading Products:

The Company actively recruits highly skilled employees and provides accumulated experience through education and training. These exceptional human resources and team spirit developed through long-term cooperation are the key factors that have enabled the Company to cultivate a superior Company culture to guarantee long-term prosperity and deliver continuous innovation.

(2) Update the Auxiliary Design and Test Equipment:

The Company provides precision instruments and equipment to improve employee work efficiency and to ensure product stability and reliability. Depending upon the interaction between customers and the markets, the development of high-tech applications will remain in line with niche markets.

(3) Complete Global Marketing Network:

The Company has many global agents or distributors, such as in Taiwan, Hong Kong, Shenzhen, Dongguan, Xiamen, Shanghai, Suzhou, Hangzhou, Nanjing, Beijing, Chengdu, Qingdao, the United States and northeast Asia, southeast Asia, South America, Europe, Middle East, etc., to rapidly collect market information and to grasp opportunities in these leading market. These complete sales networks ensure that the provision of fast sales, quick after-sales services and technical support is possible.

(4) Strong Upstream Foundry Relationship:

The Company works closely with upstream foundry vendors, packaging and testing companies. These suppliers have been able to ensure supply security, high quality and low cost procurement, so as to improve the long-term competitiveness of the Company.

(5) Excellent Management Systems:

The Company has obtained ISO9001 certification for its Quality Management System

and ISO14001 for its Environmental Management System. All internal operating system processes are in accordance with standardized and specified management. Stable product qualities and are appreciated by all customers.

5. Favorable and unfavorable factors of further development and the response to each issue

(1) Favorable Factors:

Most IC design companies operate to produce specific or professional products. Due to concentrated resources and accumulated experience, professional products have more dominant advantages here. But facing strong challenges from competitors or fluctuations within the semiconductor market, its strength and response ability is far less than those of a design house which is able to provide a wide range of different applications and meet the needs of different customer demands. Therefore, the Company aims to provide a full range of products and services to grasp the competitive advantages which listed as follows:

A. Leading and complete product series

(A) With the increasingly abundant IPs and improved design ability, ASSP/ASIC MCUs have highly integrated functions according to customers' demands. These total solutions for reference design provided by the Company are able to increase the IC functions and competitiveness of customers' products which creates barriers to competitors entering the market.

(B) Diversified products shall effectively reduce market risks.

(C) The growth target of the Company is relatively spatial and flexible.

B. Establishment of global marketing network

(A) To effectively establish global distributors to provide timely and localized product technical services and respond to market demands immediately; Localized services include providing development tools, FAE, safety verification, software services, etc.

(B) Long-term established distribution system has been spread all over the world which is conducive to full product range promotion and the expansion of revenues. These products have been certified and adopted by the United States/Europe/Japan/South Korea and other international companies, etc.

(C) To pay full and continuous attention to the development and care of customers, so as to pave a stable and sound path to the market.

(D) The combination of production and marketing develops long-term mutual benefits to support customer relationships.

(E) Alliance with upstream and downstream companies to enhance dependence to strengthen industrial competitiveness.

(F) A computerised support system enables an estimate of sales demand, pre-scheduling productivity, inventory, and outsourced processing to be fully implemented to the coordination of productivity and sales. The effective in-time product control to achieve cost minimization, output maximization and service optimization.

C. Product development capability

(A) Accumulated long-term experience of excellent R&D technology skills.

- (B) Strong and well-qualified R&D team.
- (C) Introducing new technologies through strategic cooperation and industry-academic cooperation to accelerate product and technology upgrading.
- (D) Developing diversified products to reduce the impact of industrial volatility.
- D. Overall environmental support
 - (A) Concentration of industrial support enhances business efficiency.
 - (B) Industrial specialisation enhances cooperation and dependence.
 - (C) High industrial integration and strong competitiveness enhances product advantages.

(2) Unfavorable Factors:

- A. Products which are too similar to each other, results in strong competition and reduced profits. The Company shall improve the technical level and product quality to avoid conflicts and develop a series of products and ASSP MCUs to meet various customer niches, so as to obtain unique advantages.
- B. The lowering of European and American competitors product prices. The Company shall provide cost-effective products with more rapid services and complete total solutions to obtain recognition and adoption of customers.
- C. The ecosystem cycle is shortened and the development cost is increased. The Company shall improve the development environment and collect market information quickly and accurately to achieve opportunities in advance.
- D. Facing strong competition from integrated device manufactures. The Company shall make strategic alliances with wafer foundries, packaging and testing companies to preserve its necessary competitiveness.
- E. With the increasing importance attached to intellectual property right protection, the room for survival of IC design companies is also shrinking. The Company shall continuously increase the strength of its intellectual property rights and strive to improve the dominance of its products.
- F. Faced with the vigorous development of the IC design companies in China and the deliberate neglect of intellectual property rights, IC design companies in Taiwan have experienced threats and have been affected. Therefore, the Company shall not only focus more on the development of products to consolidate the market through product transformation, diversification and improvements to obtain higher quality, but also to protect its rights in law through efficient legal procedures.
- G. The lack of IC design skills and long duration required for staff training, coupled with the rapid turnover of launched products. The Company shall work closely with tertiary institutions to recruit highly skilled talents and regularly hold training schemes for new R&D employees, to provide a good working environment and promotion channels to maintain a low employee turnover rate.
- H. Lack of sufficient confidence in the adoption of Taiwan brands. The Company shall choose suitable customers for long-term cooperation to reach the stage of mass production, so as to enhance popularity in MCU market. In addition, according to insufficient parts of product matrix, the short-term solution is to actively seek vendors with complementary products to implement strategic alliances jointly promoting the market. Moreover, in the long term, by means of new technology

introduction, its approach will be to increase the integrity of its product scope and breadth.

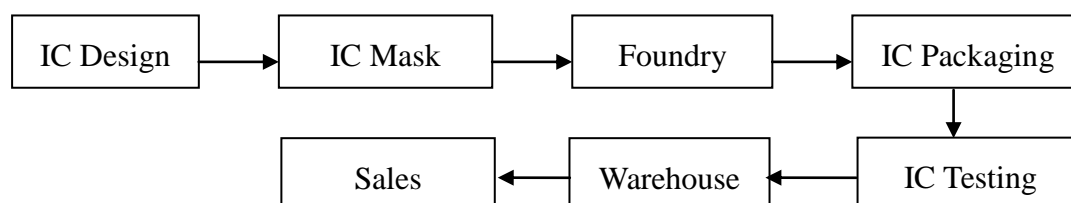
5.2.2 Purposes of the Major Products and the Production Process

1. Major Products and Their Main Uses

Major Products	Main Uses
MCU	Used in home appliances, health care products, vehicles, industrial instrument control, measurement, consumer electronics, touch products, communication products and computer products, etc.
Display Driver	Used in home appliances, education, musical products, instruments, home safety, alarms, health and medical equipment and automotive application display drive products, including LCD, VFD and LED, etc.
Power Management	Power management applications for all kinds of computers and consumer products, including voltage stabilisation, voltage detection, DC-DC and AC-DC conversion applications, etc.
Memory	Used in computers, communications, consumer electronics, education and entertainment products and smart cards, etc.

2. The Production Process

- (1) The Company is focused in the area of IC design and marketing. The previous or backend phase of the production of products is outsourced to manufacture. The production process is shown below:



- (2) Foundry resources

The Company cooperates with well-known domestic and overseas manufacturers, such as UMC, TSMC, EPISIL, Macronix, etc., to establish long-term product development and production cooperation.

- (3) IC packaging

The Company cooperates with several manufacturers, such as Greatek, Orient, ASE, etc. to ensure packaging capacity remains adequate.

- (4) IC testing

The Company cooperates with many testing organisations such as Greatek, YTEC, etc., to provide testing technology and equipment needed to meet the full capacity.

- (5) Warehouse

A. Main storage items:

(A) Categories: wafers/packaged ICs/semi-finished products/materials.

(B) Test status: This is divided into two categories which are tested and untested.

(C) Availability: Divided into three categories which are good, defective and rejected products.

B. Good warehouse planning and management and quality assurance:

(A) Automatic warehousing operations.

(B) Quality maintenance of stored items.

(C) The management and monitoring of the movement control of goods.

(D) Actively tracking the turnover efficiency of goods.

5.2.3 The supply of key materials

The Company provides high precision integrated circuits for which its raw materials are silicon wafers whose suppliers are well-known global manufacturers whose products have good quality and stable sources. The Company has established long-term and good cooperation relationships with UMC, TSMC, EPISIL and Macronix, to maintain the advantages of reliable wafer foundry resources and to actively seek the support of other foundries to meet the growth needs of the Company.

5.2.4 If any customer in any of the previous two years with purchase (sales) amount exceeding 10% of the total purchase (sales), the name, amount and proportion to total purchase (sales) shall be specified, so shall the reasons for any change if applicable:

1. Major Suppliers in the Last Two Calendar Years

Unit: NT\$ thousands

Item	2017				2018			
	Company Name	Amount	Percent	Relation with Issuer	Company Name	Amount	Percent	Relation with Issuer
1	A	896,544	35	None	A	878,732	34	None
2	B	334,669	13	None	B	354,956	14	None
3	C	207,043	8	None	C	283,560	11	None
	Others	1,095,148	44	None	Others	1,033,549	41	None
	Net Total Supplies	2,533,404	100		Net Total Supplies	2,550,797	100	

Note 1: List of any suppliers accounting for 10 percent or more of the Company's total procurement (sales) amount in either of the 2 most recent fiscal years, the amounts bought from (sold to) each, the percentage of total procurement (sales) accounted for by each and an explanation of the reason for increases or decreases in the above figures. Where the Company is prohibited by contract from revealing the name of a client or where a trading counterpart is an individual person who is not a related party, it may use a code in place of the actual name.

2. Major Clients in the Last Two Calendar Years

Unit: NT\$ thousands

Item	2017				2018			
	Company Name	Amount	Percent	Relation with Issuer	Company Name	Amount	Percent	Relation with Issuer
1	SIGNAL	571,681	12	(Note 2)	SIGNAL	635,592	13	(Note 2)
2	CROWN RICH	465,727	10	(Note 2)	CROWN RICH	544,069	11	(Note 2)
3	NEW WAVE	464,762	10	(Note 2)	NEW WAVE	440,018	9	(Note 2)
	Others	3,112,747	68		Others	3,243,128	67	
	Net Sales	4,614,917	100		Net Sales	4,862,807	100	

Note 1: List of any clients accounting for 10 percent or more of the Company's total procurement (sales) amount in either of the 2 most recent fiscal years, the amounts bought from (sold to) each, the percentage of total procurement (sales) accounted for by each and an explanation of the reason for increases or decreases in the above figures. Where the company is prohibited by contract from revealing the name of a client or where a trading counterpart is an individual person who is not a related party, it may use a code in place of the actual name.

Note 2: The reinvested companies accounted for using equity method by the Company's subsidiaries.

5.2.5 Production in the Last Two Years

Unit: thousands DICE/NT\$ thousands

Output Major Products	Year	2017			2018		
		Capacity	Quantity	Amount	Capacity	Quantity	Amount
MCU ICs		--	643,207	1,866,492	--	667,826	1,867,614
Peripheral ICs		--	447,958	583,140	--	405,805	536,009
Others		--	259	4,661	--	136	6,110
Total		--	1,091,424	2,454,293	--	1,073,767	2,409,733

Note 1: The products developed and designed by the company are mainly manufactured in wafer foundries and then outsourced for testing and packaging. There is no self-owned capacity limit and the quantity of production is based on the current year sales estimate.

5.2.6 Shipments and Sales in the Last Two Years

Unit: thousands DICE/NT\$ thousands

Sales Major Products	Year	2017				2018			
		Domestic		Export		Domestic		Export	
		Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
MCU IC		54,364	409,523	570,759	2,989,269	42,333	346,059	630,511	3,365,495
Peripheral IC		48,641	145,321	394,261	1,053,398	44,603	126,566	355,294	999,633
Others		235	3,021	38	14,385	35	11,639	788	13,415
Total		103,240	557,865	965,058	4,057,052	86,971	484,264	986,593	4,378,543

5.3 Employee Information

In the last two years as of the date this report was printed, the number of employees, average working period, average age and education are shown in the table below:

Year		2017	2018	As of March 31, 2019
Number of employees	R&D	500	566	566
	Management	140	145	142
	Manufacturing	34	41	44
	Total	674	752	752
Average age		36.31	35.78	35.98
Average years of service (Year)		7.08	7.01	7.16
Education	PhD	0.5%	0.7%	0.7%
	Master	28.6%	27.9%	27.8%
	Bachelor	62.6%	64.2%	64.0%
	High School	8.3%	7.2%	7.5%

5.4 Information on the expenditures for environmental protection

In the most recent two years and up to the publication date of 2018 Annual Report, the Company has not suffered losses and punishment for environmental pollution.

5.5 Labor relations

5.5.1 Listed below are the employee welfare, education, training, retirement systems and how they are implemented in the Company, as well as information on the agreements between the Company and various employee rights and maintenance:

1. Employee welfare

(1) Welfare

The Company features an employee restaurant, staff recreation area, sports and fitness equipment area, rhythm classroom, medical room and other facilities. All employees are entitled to benefits such as group insurance, regular high-quality health checks etc. Professional medical staff are utilised to provide staff with health management facilities and medical insurance.

(2) Employee benefits:

The Employee Welfare Committee holds regular staff travel activities, a range of game based competitions, a year-end party and other activities. In addition, there are birthday gift vouchers, festival vouchers, travel subsidies, marriage/funeral cash gifts, birth and hospitalization time are all covered all the Company.

In order to promote various recreational clubs and enhance good relations among employees, a range of club activities have been established which receive financial subsidies. These include a billiards club, badminton club, yoga club, board games club, swimming club, etc. These encourage colleagues to have a good life/leisure balance so as to create a sporting culture and improved quality of life.

2. Employee further study and training system:

The Company has spared effort in nurturing excellence in its professional talent. It has allocated a budget for continuing employee education. HR and training sessions have prepared training courses for each of the business groups according to the development goals of the Company and the needs of various departments so that each employee can broaden their knowledge and skills within a complete career training system:

(1) Pre-service training courses - orientation training programs :

- A. Courses to promote company culture: The Company has held orientation training programs which enable new employees to become familiar with the Company's organisational structure, internal personnel regulations, quality policies, work safety, labor health, personnel and environmental training, etc.
- B. Professional training: Senior engineers serve as instructors for new employees, and prepare training courses for less senior employees to help them become proficient in the required design technology.

(2) On-the-job training programs:

- A. Internal department training: each department requires engineers to participate in internal department specialty training according to their professional needs.
- B. Internal training: Professional lecturers are occasionally invited to present professional training courses. These include technical training, management training, quality training, industry safety environment protection training, intellectual property right (IP) training and computer training courses etc. These are set up by a training committee and are based on the professional requirements of each department.
- C. Online learning courses: The Company has not only established educational and training platforms which have integrated a range of course information, training systems and data queries but have also developed e-learning and knowledge management systems as well as establishing an online teaching satisfaction survey mechanism.
- D. External training: The Company compiles an annual training budget for each employee allowing them to obtain external professional training according to their

personal plan requirements.

- E. The following shows what was implemented in terms of internal and external employee training during 2018:

	Total number of training hours	Total number of people trained
Management Training	320.5	211
Professional Training	452.5	92
Orientation Training	380	38

(3) In-service training:

Senior engineers may apply for in-service training programs at domestic universities to enhance their professional research and development skills and management capabilities to meet the Company's future development and sustainable business needs.

(4) Self-development:

The Company cultivates the professional ability of employees to build confidence in technology and increase program management experience and teamworking. In addition, senior employees will be trained to be central Company leaders who can participate in the management training of grassroots, middle and senior managers according to the demands of their level. In this way they will improve their management ability and performance.

3. Retirement system and implementation situation:

(1) Pension contribution:

- A. The Company has formulated labor pension regulations and established a labor retirement reserve supervision committee. According to the Labor Standards Act and the Regulations for the Allocation and Management of Workers' Retirement Reserve Funds, the Company shall allocate 2% of the actual employee's total salary to the retirement fund every month and deposit these pension funds in a Bank of Taiwan dedicated account.
- B. Employees who applied for the new pension system, according to the provisions of the Labor Pension Act, allocate a monthly amount of 6% of their wages which is deposited to their individual retirement accounts.

(2) Implementation situation:

In accordance with the law and relevant regulations, the labor and management of the Company shall jointly organise a "Labor pension reserve supervision committee". Both sides shall hold quarterly meetings of the labor pension reserve supervision committee which shall be responsible for the supervision and review of the fund allocation, storage and expenditure of the retirement reserve.

4. Agreements between labor and management and various employee rights and interests protection measures:

The Company regularly holds labor meetings every quarter. Here resolutions that need to be discussed are fully communicated by both sides of labor and management and

implemented after reaching a consensus. Up to the present date the relationship and interaction between both labor and management have remained excellent.

5. Code of conduct and ethics for employees:

The Company's "Codes of Ethical Conduct of Directors' and Managers", "employee code" and "Rules of Integrity for the employees" regulate the business of all employees for management or supervision. There must be no influencing of the beneficiaries, directly or indirectly, to gain improper benefit or other improper activities. The above items are within the Company's rules and new staff training materials.

6. Work environment and employee safety protection measures:

The Company obtained Certification of Approval for OHSAS18001 (Occupational Health and Safety Assurance Systems) in 2006 and holds regular quarterly meetings of its industry safety environment protection committee to promote the continuous improvement of various employee safety and health business activities. This includes health and safety related training, to create a good working environment and to protect the physical and mental health and safety of employees.

- (1) Entrance security guards: In addition to the 24-hour building security guards, security cameras are installed at all entrances and corners. The security management at night and on holidays is strengthened to ensure the personal safety of employees.
- (2) Fire safety:
 - A. An external company is commissioned to maintain and repair the fire service equipment (e.g., fire alarm and fire extinguisher). The Company also hires designated personnel to ensure records are kept after regular inspections.
 - B. The Company conducts fire drill and emergency shelter measures annually and has developed safety protocols for emergency situations and awareness of how to handle emergency situations should they arrive.
- (3) Environmental safety: In order to maintain the hygiene and quality of employees' drinking water, the Company has commissioned an external company to sample and test the E. coli content of its drinking water machines quarterly. It regularly implements office cleaning and disinfection and provides 75% alcohol in the toilet area to ensure the hygiene, safety and comfort of the working environment.
- (4) Staff health examination: The Company regularly entrusts external medical institutions to arrange various physical health examinations for employees and sets up specialized medical staff to provide medical services and arranges professional doctors to visit the company and hold health lectures every two months to help employees with their physical and mental health.

5.5.2 List any loss sustained as a result of labor disputes in the most recent fiscal year, and during the current fiscal year up to the date of publication of the annual report, disclose an estimate of losses incurred to date or likely to be incurred in the future, and indicate mitigation measures being or to be taken. If the loss cannot be reasonably estimated, make a statement to that effect:

None

5.6 Material contracts

Agreement	Counterparty	Period	Major Contents	Restrictions
Land lease	Hsinchu Science Park Bureau, Ministry of Science and Technology	2001/03/15~2020/12/31	Lease land of self-constructed factory	Usage of self-constructed factory only
Technology licensing	Arm Limited	Contracts commence on 2007/06/25 and continue in force	Arm® Cortex™-M3 Technology licensing	Obey to any related laws or regulations
Technology licensing	Arm Limited	Contracts commence on 2013/09/24 and continue in force	Arm® Cortex™-M0+ Technology licensing	Obey to any related laws or regulations
Technology licensing	Andes Technology	2015/04/01~2018/03/31	Andestech D10 CPU Softcore Technology licensing	Obey to any related laws or regulations

VI. Financial Information

6.1 Five-Year Financial Summary

6.1.1 Consolidated Financial Summary – IFRS

1. Consolidated Condensed Balance Sheet – the Company and Subsidiaries

Unit: NT\$ thousands

<div>Year</div> <div>Item</div>		Financial Summary for The Last Five Years (Note 1)				
		2014	2015	2016	2017	2018
Current assets		3,830,158	3,824,522	3,928,641	4,179,054	4,322,111
Property, plant and equipment		487,863	463,561	442,570	414,729	398,515
Intangible assets		—	—	—	—	—
Other assets		741,545	775,954	763,556	770,487	834,874
Total assets		5,059,566	5,064,037	5,134,767	5,364,270	5,555,500
Current liabilities	Before distribution	858,093	854,700	977,382	1,068,788	1,079,483
	After distribution	1,649,682	1,662,120	1,768,971	1,996,078	(Note 2)
Non-current liabilities		143,866	163,141	173,262	196,636	251,918
Total liabilities	Before distribution	1,001,959	1,017,841	1,150,644	1,265,424	1,331,401
	After distribution	1,793,548	1,825,261	1,942,233	2,192,714	(Note 2)
Equity attributable to stockholders of the parent		4,038,632	4,027,963	3,965,330	4,071,239	4,199,170
Ordinary share capital		2,261,682	2,261,682	2,261,682	2,261,682	2,261,682
Capital surplus		142,309	142,309	159,281	142,309	142,309
Retained earnings	Before distribution	1,588,979	1,591,692	1,568,678	1,699,004	1,832,565
	After distribution	797,390	784,272	777,089	771,714	(Note 2)
Other equity		45,662	32,280	(24,311)	(31,756)	(37,386)
Treasury shares		—	—	—	—	—
Non-controlling interests		18,975	18,233	18,793	27,607	24,929
Total equity	Before distribution	4,057,607	4,046,196	3,984,123	4,098,846	4,224,099
	After distribution	3,266,018	3,238,776	3,192,534	3,171,556	(Note 2)

Note 1: The data listed here was audited by certified public accountant.

Note 2: Pending on approval of shareholders at Annual General Shareholders' Meeting.

2. Consolidated Income Statement – the Company and Subsidiaries

Unit: NT\$ thousands

<div> <div>Year</div> <div>Item</div> </div>	Financial Summary for The Last Five Years (Note 1)				
	2014	2015	2016	2017	2018
Revenues	3,930,519	3,967,840	4,157,788	4,614,917	4,862,807
Gross profits	1,888,747	1,948,478	2,018,145	2,189,460	2,406,974
Operating income	817,495	846,550	833,690	943,311	1,110,730
Non-operating income and expenses	121,024	100,153	84,273	126,479	134,859
Income before income tax	938,519	946,703	917,963	1,069,790	1,245,589
Net income from operations of continued segments	798,584	818,321	792,722	935,987	1,070,366
Net income from operations of discontinued segments	—	—	—	—	—
Net income (Loss)	798,584	818,321	792,722	935,987	1,070,366
Other comprehensive income (income after tax)	30,596	(25,886)	(56,403)	(11,703)	(76,197)
Total comprehensive income	829,180	792,435	736,319	924,284	994,169
Net income attributable to shareholders of the parent	791,556	806,806	784,218	926,188	1,063,990
Net income attributable to non-controlling interests	7,028	11,515	8,504	9,799	6,376
Total comprehensive income attributable to shareholders of the parent	822,225	780,920	727,815	914,470	987,931
Total comprehensive income attributable to non-controlling interests	6,955	11,515	8,504	9,814	6,238
Earnings per share (NT\$)	3.50	3.57	3.47	4.10	4.70

Note 1: The data listed here was audited by certified public accountant.

6.1.2 Entity Financial Summary – IFRS

1. Condensed Balance Sheet – the Parent Company

Unit: NT\$ thousands

Year Item		Financial Summary for The Last Five Years (Note 1)				
		2014	2015	2016	2017	2018
Current assets		3,314,680	3,238,852	3,299,082	3,470,083	3,546,143
Property, plant and equipment		192,841	185,281	177,908	165,050	151,248
Intangible assets		—	—	—	—	—
Other assets		1,468,756	1,541,722	1,540,790	1,595,737	1,749,444
Total assets		4,976,277	4,965,855	5,017,780	5,230,870	5,446,835
Current liabilities	Before distribution	796,996	778,756	883,701	968,014	1,002,792
	After distribution	1,588,585	1,586,176	1,675,290	1,895,304	(Note 2)
Non-current liabilities		140,649	159,136	168,749	191,617	244,873
Total liabilities	Before distribution	937,645	937,892	1,052,450	1,159,631	1,247,665
	After distribution	1,729,234	1,745,312	1,844,039	2,086,921	(Note 2)
Equity attributable to stockholders of the parent		4,038,632	4,027,963	3,965,330	4,071,239	4,199,170
Ordinary share capital		2,261,682	2,261,682	2,261,682	2,261,682	2,261,682
Capital surplus		142,309	142,309	159,281	142,309	142,309
Retained earnings	Before distribution	1,588,979	1,591,692	1,568,678	1,699,004	1,832,565
	After distribution	797,390	784,272	777,089	771,714	(Note 2)
Other equity		45,662	32,280	(24,311)	(31,756)	(37,386)
Treasury shares		—	—	—	—	—
Non-controlling interests		—	—	—	—	—
Total equity	Before distribution	4,038,632	4,027,963	3,965,330	4,071,239	4,199,170
	After distribution	3,247,043	3,220,543	3,173,741	3,143,949	(Note 2)

Note 1: The data listed here was audited by certified public accountant.

Note 2: Pending on approval of shareholders at Annual General Shareholders' Meeting.

2. Condensed Income Statement – the Parent Company

Unit: NT\$ thousands

Item \ Year	Financial Summary for The Last Five Years (Note 1)				
	2014	2015	2016	2017	2018
Revenues	3,605,717	3,601,285	3,695,728	4,130,794	4,358,758
Gross profits	1,685,380	1,719,836	1,734,684	1,895,447	2,084,309
Operating income	794,650	810,424	786,319	880,236	1,051,333
Non-operating income and expenses	132,769	119,254	115,062	171,629	181,577
Income before income tax	927,419	929,678	901,381	1,051,865	1,232,910
Net income from operations of continued segments	791,556	806,806	784,218	926,188	1,063,990
Net income from operations of discontinued segments	—	—	—	—	—
Net income (Loss)	791,556	806,806	784,218	926,188	1,063,990
Other comprehensive income (income after tax)	30,669	(25,886)	(56,403)	(11,718)	(76,059)
Total comprehensive income	822,225	780,920	727,815	914,470	987,931
Net income attributable to shareholders of the parent	791,556	806,806	784,218	926,188	1,063,990
Net income attributable to non-controlling interests	—	—	—	—	—
Total comprehensive income attributable to shareholders of the parent	822,225	780,920	727,815	914,470	987,931
Total comprehensive income attributable to non-controlling interests	—	—	—	—	—
Earnings per share (NT\$)	3.50	3.57	3.47	4.10	4.70

Note 1: The data listed here was audited by certified public accountant.

6.1.3 Auditors' Opinion in the Most Recent 5 Years

Year	Accounting Firm	Name of Auditor (CPA)	Opinion
2014	Wei, Shing-Hai, Tseng, Mei-Yu	KPMG	Unqualified opinion
2015	Tseng, Mei-Yu, Yu, Wan-Yuan	KPMG	Unqualified opinion
2016	Tseng, Mei-Yu, Yu, Wan-Yuan	KPMG	Unqualified opinion
2017	Tseng, Mei-Yu, Yu, Wan-Yuan	KPMG	Unqualified opinion
2018	Tseng, Mei-Yu, Yu, Wan-Yuan	KPMG	Unqualified opinion

6.2 Five-Year Financial Analysis

6.2.1 Consolidated Financial Analysis – IFRS

Item (Note 2)	Year	Financial Analysis for the Last Five Years (Note 1)				
		2014	2015	2016	2017	2018
Capital structure analysis (%)	Debt ratio	20	20	22	23	24
	Long-term fund to property, plant and equipment ratio	832	873	900	988	1,060
Liquidity Analysis (%)	Current ratio	446	447	402	391	400
	Quick ratio	387	378	349	335	339
	Times interest earned (times)	—	—	—	—	—
Operating performance analysis	Accounts collection turnover (times)	6.07	5.85	5.91	5.78	5.66
	Average collection days	60	62	62	63	64
	Average inventory turnover (times)	4.02	3.71	3.90	4.39	3.93
	Average payment turnover (times)	4.40	4.29	4.12	4.15	4.04
	Average inventory turnover days	91	98	94	83	93
	Property, plant and equipment turnover (times)	7.96	8.34	9.18	10.77	11.96
	Total assets turnover (times)	0.78	0.78	0.81	0.86	0.88
Profitability analysis	Return on total assets (%)	16	16	15	18	19
	Return on equity attributable to owners of the parent (%)	20	20	20	23	26
	Pre-tax income to paid-in capital (%)	41	42	41	47	55
	Net profit margin (%)	20	20	19	20	22
	Earnings per share (NT\$)	3.50	3.57	3.47	4.10	4.70
Cash flow	Cash flow ratio (%)	114	90	95	65	114
	Cash flow adequacy ratio (%)	124	110	111	111	104
	Cash reinvestment ratio (%)	5	(1)	2	(2)	6
Leverage	Operating leverage	1.86	1.90	1.99	1.97	1.85
	Financial leverage	1.00	1.00	1.00	1.00	1.00
Changes that exceed 20% in the past two years and explanation for those changes:						
1. Increase in cash flow ratio (%): The increase was mainly due to increase in net cash inflows from operating activities.						
2. Increase in Cash reinvestment ratio (%): The increase was mainly due to increase in net cash flow from operating activities.						

Note 1: The data listed here was audited by certified public accountant.

Note 2: The equations for the calculation of the above financial ratios are shown as follows.

6.2.2 Entity Financial Analysis – IFRS

Item (Note 2)	Year	Financial Analysis for the Last Five Years (Note 1)				
		2014	2015	2016	2017	2018
Capital structure analysis (%)	Debt ratio	19	19	21	22	23
	Long-term fund to property, plant and equipment ratio	2,094	2,174	2,229	2,467	2,776
Liquidity Analysis (%)	Current ratio	416	416	373	358	354
	Quick ratio	362	352	325	308	300
	Times interest earned (times)	—	—	—	—	—
Operating performance analysis	Accounts collection turnover (times)	5.99	5.66	5.92	5.87	5.68
	Average collection days	61	64	62	62	64
	Average inventory turnover (times)	4.38	4.09	4.30	4.93	4.46
	Average payment turnover (times)	4.45	4.35	4.11	4.13	4.02
	Average inventory turnover days	83	89	85	74	82
	Property, plant and equipment turnover (times)	17.99	19.05	20.35	24.09	27.56
	Total assets turnover (times)	0.72	0.73	0.74	0.79	0.80
Profitability	Return on total assets (%)	16	16	16	18	20
	Return on equity attributable to owners of the parent (%)	20	20	20	23	26
	Pre-tax income to paid-in capital (%)	41	41	40	47	55
	Net profit margin (%)	22	22	21	22	24
	Earnings per share (NT\$)	3.50	3.57	3.47	4.10	4.70
Cash flow	Cash flow ratio (%)	108	88	95	59	116
	Cash flow adequacy ratio (%)	118	103	102	103	97
	Cash reinvestment ratio (%)	3	(2)	1	(5)	5
Leverage	Operating leverage	1.73	1.76	1.83	1.85	1.72
	Financial leverage	1.00	1.00	1.00	1.00	1.00
<p>Changes that exceed 20% in the past two years and explanation for those changes:</p> <ol style="list-style-type: none"> 1. Increase in cash flow ratio (%): The increase was mainly due to increase in net cash inflows from operating activities. 2. Increase in Cash reinvestment ratio (%): The increase was mainly due to increase in net cash flow from operating activities. 						

Note 1: The data listed here was audited by certified public accountant.

Note 2: The equations for the calculation of the above financial ratios are shown as follows.

The equations for the calculation of the above financial ratios:

1. Capital Structure Analysis:

- (1) Debt ratio = Total liabilities / Total assets
- (2) Long-term fund to property, plant and equipment ratio = (Shareholders' equity + non-current liabilities) / Net property, plant and equipment

2. Liquidity Analysis:

- (1) Current ratio = Current assets / Current liabilities
- (2) Quick ratio = (Current assets – inventories – prepaid expenses) / Current liabilities
- (3) Times interest earned = Earnings before interest and taxes / Interest expenses

3. Operating Performance Analysis:

- (1) Average collection turnover = Net sales / Average trade receivables
- (2) Average collection days = 365 / Average collection turnover
- (3) Average inventory turnover = Operating costs / Average inventory
- (4) Average payment turnover = operating costs / Average trade payables
- (5) Average inventory turnover days = 365 / Average inventory turnover
- (6) Property, plant and equipment turnover = Net sales / Average property, plant and equipment
- (7) Total assets turnover = Net sales / total assets

4. Profitability Analysis:

- (1) Return on total assets = [Net income + Interest expenses x (1 – tax rate)] / Average total assets
- (2) Return on equity attributable to shareholders of the parent = Net income attributable to shareholders of the parent / Average equity attributable to shareholders of the parent
- (3) Net profit margin = Net income / Net sales
- (4) Earnings per share = (Net income attributable to shareholders of the parent – preferred stock dividend) / Weighted average number of shares outstanding

5. Cash Flow:

- (1) Cash flow ratio = Net cash 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 = (Net sales – variable cost) / Operating income
- (2) Financial leverage = Operating income / (Operating income – interest expenses)

6.3 Audit Committee's Review Report

Holtek Semiconductor Inc. Audit Committee's Review Report

The Board of Directors has prepared the Company's 2018 business report, financial statements and proposal for distribution of profits. The CPA firm of KPMG was retained to audit Holtek's financial statements and has issued an audit report relating to the financial statements. The business report, financial statements, and earning distribution proposal have been reviewed by the Audit Committee and no irregularities were found. According to Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act, we hereby submit this report.

To Holtek Semiconductor Inc. 2019 Annual Shareholders' Meeting

Holtek Semiconductor Inc.

Chairman of the Audit Committee: Lu, Cheng-Yueh

March 06, 2019

6.4 Consolidated Financial Statements and Independent Auditors' Report

Please refer to Page 114~193.

6.5 Parent Company Financial Statements and Independent Auditors' Report

Please refer to Page .194~264.

6.6 Any insolvency for the Company and the affiliates in the last fiscal period and to the date this annual report was printed, and the effect on the financial position: None

Representation Letter

The entities that are required to be included in the combined financial statements of Holtek Semiconductor Inc. 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 Financial Reporting Standard No. 10, "Consolidated Financial Statements" endorsed by the Financial Supervisory Commission. In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Holtek Semiconductor Inc. and its subsidiaries do not prepare a separate set of combined financial statements.

Hereby declare

Company Name: Holtek Semiconductor Inc.

Chairman: WU, CHI YUNG

Date: January 28, 2019

Independent Auditors' Report

To the Board of Directors of Holtek Semiconductor Inc.:

Opinion

We have audited the consolidated financial statements of Holtek Semiconductor Inc. and its subsidiaries (collectively as “the Group”), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of 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, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for each of 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, International Accounting Standards, interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audit 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 Auditor's Responsibilities for the Audit of the Consolidated 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the 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 — related-party and unrealized gross profits on sales to associates

Refer to Note 4(15) “Revenue recognition”, and Note 7(2) “Significant related-party transactions” to the consolidated financial statements.

Description of key audit matter:

The revenue is the basic operational activity of the Group's sustainable operation, which is related to the operational performance of the enterprise, and because the main transaction is the relationship person, it has a high risk of high fraud. Therefore, the valuation of receivables is one of the key audit matters for our audit.

How the matter was addressed in our audit:

In relation to the key audit matter above, our principal audit procedures included testing the Group's controls surrounding revenue recognition and Collection operation cycle and Evaluating the reasonableness of commercial transactions; Evaluating revenue trend analysis; understanding the transactions of related parties and execution of the accounts; Executing the related party's letter of confirmation; Assessing the correctness and reasonableness of the gross profit margin of sales and the unrealized gross profit on sales to associates; and assessing whether the Group has properly disclosed relevant information about the sales of the related parties and unrealized gross profit on sales to associates.

2. Valuation of Inventories

Refer to Note 4(9) "Summary of Significant Accounting Policies – Inventories", Note 5 "Major Sources of Accounting Judgments, Estimations and Assumptions of Uncertainty", and Note 6(6) "Description of Significant Accounts – Inventories, net" to the consolidated financial statements.

Description of key audit matter:

Inventories are stated at the lower of cost or net realizable value, and the Group uses judgments and estimates to determine the net realizable value of inventory for obsolescence and unmarketable items at the reporting period. It also writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on the assumptions of the estimated selling price of the products within a specific time horizon. However, due to the rapid industrial transformation, the above estimation may have a significant change. Therefore, the allowance to reduce inventory to market is one of the key audit matters for our audit.

How the matter was addressed in our audit:

In relation to the key audit matter above, our principal audit procedures included reviewing the inventory age reports to analyze the changes in the inventory levels; performing computer audit procedures in order to check the correctness of age of inventory report; reviewing production and marketing meetings to assess inventory destocking; evaluating the inventory in accordance with the group's established accounting policies; performing inventory traceability tests; and verifying the reasonableness of the sluggish loss.

Other Matters

Holtek Semiconductor Inc. has additionally 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.

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 International Financial Reporting Standards, International Accounting Standards, interpretation as well as related guidance endorsed 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 (inclusive of the Audit Committee) are responsible for overseeing the Group's financial reporting process.

Auditor's 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 auditor's 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 exercised professional judgment and maintained 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 auditor's 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 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.

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 identified during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicated 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 determined 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 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 Tseng, Mei Yu and Yu, Wan Yuan.

KPMG

Hsinchu, Taiwan (Republic of China)

January 28, 2019

Notice to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial position, financial performance, and cash flows in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards, International Accounting Standards, interpretations as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China. 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)

Holtek Semiconductor Inc. and Subsidiaries

Consolidated Balance Sheets

December 31, 2018 and 2017

(Expressed in thousands of New Taiwan Dollars)

		December 31, 2018		December 31, 2017				December 31, 2018		December 31, 2017	
Assets		Amount	%	Amount	%	Liabilities and Equity		Amount	%	Amount	%
Current assets:						Current liabilities:					
1100	Cash and cash equivalents (note 6(1))	\$ 1,517,632	27	1,391,728	26	2150	Notes payable	\$ 125,021	2	146,854	3
1110	Financial assets measured at fair value through profit or loss-current (note 6(2))	486,555	9	582,902	11	2170	Accounts payable	489,388	9	454,078	8
1170	Notes and accounts receivable, net (note 6(5))	97,604	2	115,164	2	2201	Salary payable	281,788	5	276,046	5
1180	Accounts receivable from related parties (note 6(5) and 7)	749,789	13	755,407	14	2230	Current income tax liabilities	97,904	2	85,271	2
130X	Inventories (note 6(6))	654,866	12	594,589	11	2300	Other current liabilities	85,382	2	106,539	2
1476	Other financial assets — current (notes 6(7) and 8)	784,175	14	711,632	13			1,079,483	20	1,068,788	20
1470	Other current assets	31,490	1	27,632	1		Non-current liabilities:				
		4,322,111	78	4,179,054	78	2570	Deferred tax liabilities (note 6 (12))	166,610	3	114,988	2
						2640	Net defined benefit liabilities (note 6 (11))	76,602	1	72,938	1
						2645	Guarantee deposit received	8,706	-	8,710	-
								251,918	4	196,636	3
								1,331,401	24	1,265,424	23
Non-current assets:						Total liabilities					
1550	Equity instruments measured at fair value through other comprehensive income — non-current (note 6(3))	265,161	5	-	-	Equity (notes 6(13)) :					
1543	Financial assets carried at cost — non-current (note 6(4))	-	-	259,446	5		Equity attributable to shareholders of the parent				
1550	Investments accounted for using equity method (notes 6(8) and 7)	449,015	8	419,129	8	3110	Ordinary share capital	2,261,682	41	2,261,682	42
1600	Property, plant and equipment (notes 6(9))	398,515	7	414,729	8	3200	Capital surplus	142,309	3	142,309	3
1840	Deferred tax assets (note 6 (12))	69,706	1	49,503	1	3300	Retained earnings	1,832,565	33	1,699,004	32
1900	Other non-current assets	50,992	1	42,409	-	3400	Other equity	(37,386)	(1)	(31,756)	(1)
		1,233,389	22	1,185,216	22		Total equity attributable to shareholders of the parent	4,199,170	76	4,071,239	76
						36XX	Non-controlling interests	24,929	-	27,607	1
							Total equity	4,224,099	76	4,098,846	77
							Total liabilities and equity	\$ 5,555,500	100	5,364,270	100
Total assets		\$ 5,555,500	100	5,364,270	100						

(See accompanying notes to consolidated financial statements.)

Chairman : Wu, Chi Yung

General Manager : Gau, Kuo Tung

Accounting Manager : Liao, Ming Tung

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

Holtek Semiconductor Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017

(Expressed in thousands of New Taiwan Dollars, except for Earnings per Share)

		2018		2017	
		Amount	%	Amount	%
4000	Revenues (notes 6(16) 、 7)	\$ 4,862,807	100	4,614,917	100
5000	Cost of Goods Sold (notes 6(6) 、 (11) 、 (15) 、 7 and 12)	<u>2,455,833</u>	<u>51</u>	<u>2,425,457</u>	<u>53</u>
	Gross profits	2,406,974	49	2,189,460	47
5910	Unrealized gross profits on sales to associates	<u>12,624</u>	<u>-</u>	<u>27,374</u>	<u>1</u>
	Realized gross profits	<u>2,394,350</u>	<u>49</u>	<u>2,162,086</u>	<u>46</u>
	Operating expenses (notes 6 、 (11) 、 (15) and 12) :				
6100	Selling	115,839	2	108,576	2
6200	General and administrative	381,627	8	367,250	8
6300	Research and development	783,088	16	742,949	16
6450	Expected credit impairment loss (notes 6(5))	<u>3,066</u>	<u>-</u>	<u>-</u>	<u>-</u>
		<u>1,283,620</u>	<u>26</u>	<u>1,218,775</u>	<u>26</u>
	Operating income	<u>1,110,730</u>	<u>23</u>	<u>943,311</u>	<u>20</u>
	Non-operating income and expenses:				
7020	Other gains and losses (notes 6(17))	15,471	1	33,956	1
7070	Investment income accounted for using equity method (note 6(8))	97,105	2	81,967	2
7100	Interest income	14,568	-	10,556	-
7130	Dividends income	<u>7,715</u>	<u>-</u>	<u>-</u>	<u>-</u>
		<u>134,859</u>	<u>3</u>	<u>126,479</u>	<u>3</u>
	Income before income tax	1,245,589	26	1,069,790	23
7950	Income tax (note 6 (12))	<u>175,223</u>	<u>4</u>	<u>133,803</u>	<u>3</u>
	Net income	<u>1,070,366</u>	<u>22</u>	<u>935,987</u>	<u>20</u>
8300	Other comprehensive income:				
8310	Items that will not be reclassified subsequently to profit or loss				
8311	Remeasurements of the defined benefit plans(note 6(11))	(5,618)	-	(5,148)	-
8316	Unrealized losses from investments in equity instruments measured at fair value through other comprehensive income	(58,603)	(1)	-	-
8349	Income tax relating to items that will be not reclassified subsequently (note 6(12))	<u>1,124</u>	<u>-</u>	<u>875</u>	<u>-</u>
	Total items that will not be reclassified subsequently to profit or loss	<u>(63,097)</u>	<u>(1)</u>	<u>(4,273)</u>	<u>-</u>
8360	Items that may be reclassified subsequently to profit or loss				
8361	Exchange differences on translation of financial statements of foreign affiliates	(16,569)	-	(9,411)	-
8371	Exchange differences on translation of financial statements of invested associates accounted for using equity method	(521)	-	456	-
8399	Income tax relating to items that may be reclassified subsequently (note 6(12))	<u>3,990</u>	<u>-</u>	<u>1,525</u>	<u>-</u>
	Total items that may be reclassified subsequently to profit or loss	<u>(13,100)</u>	<u>-</u>	<u>(7,430)</u>	<u>-</u>
8300	Other comprehensive income	<u>(76,197)</u>	<u>(1)</u>	<u>(11,703)</u>	<u>-</u>
	Total comprehensive income	<u>\$ 994,169</u>	<u>21</u>	<u>924,284</u>	<u>20</u>
	Net income attributable to:				
8610	Shareholders of the parent	\$ 1,063,990	22	926,188	20
8620	Non-controlling interests	<u>6,376</u>	<u>-</u>	<u>9,799</u>	<u>-</u>
		<u>\$ 1,070,366</u>	<u>22</u>	<u>935,987</u>	<u>20</u>
	Total comprehensive income (loss) attributable to:				
8710	Shareholders of the parent	\$ 987,931	21	914,470	20
8720	Non-controlling interests	<u>6,238</u>	<u>-</u>	<u>9,814</u>	<u>-</u>
		<u>\$ 994,169</u>	<u>21</u>	<u>924,284</u>	<u>20</u>
	Earnings per share (New Taiwan Dollars) (note 6(14))				
9750	Basic earnings per share	<u>\$ 4.70</u>		<u>4.10</u>	
9850	Diluted earnings per share	<u>\$ 4.66</u>		<u>4.06</u>	

(See accompanying notes to consolidated financial statements.)

Chairman : Wu, Chi Yung General Manager : Gau, Kuo Tung Accounting Manager : Liao, Ming Tung

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

Holtek Semiconductor Inc. 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 attributed to shareholders of the parent											
	Retained earnings						Total other equity interest					
	Ordinary share capital	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total retained earnings	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) from investments measured at fair value through other comprehensive income	Total other equity interest	Total equity attributed to shareholders of the parent	Non- controlling interests	Total equity
Balance as of January 1, 2017	\$ 2,261,682	159,281	781,525	2,642	784,511	1,568,678	(24,311)	-	(24,311)	3,965,330	18,793	3,984,123
Net income for the period	-	-	-	-	926,188	926,188	-	-	-	926,188	9,799	935,987
Other comprehensive income for the period	-	-	-	-	(4,273)	(4,273)	(7,445)	-	(7,445)	(11,718)	15	(11,703)
Total comprehensive income for the period	-	-	-	-	921,915	921,915	(7,445)	-	(7,445)	914,470	9,814	924,284
Retained earnings												
Appropriation for legal reserve	-	-	78,422	-	(78,422)	-	-	-	-	-	-	-
Appropriation for special reserve	-	-	-	24,312	(24,312)	-	-	-	-	-	-	-
Cash dividends distributed to shareholders	-	-	(109,918)	-	(681,671)	(791,589)	-	-	-	(791,589)	-	(791,589)
Changes in associates accounted for using equity method	-	(16,972)	-	-	-	-	-	-	-	(16,972)	-	(16,972)
Cash dividends from subsidiaries	-	-	-	-	-	-	-	-	-	-	(7,653)	(7,653)
Increase(decrease) in non-controlling interests	-	-	-	-	-	-	-	-	-	-	6,653	6,653
Balance as of December 31, 2017	2,261,682	142,309	750,029	26,954	922,021	1,699,004	(31,756)	-	(31,756)	4,071,239	27,607	4,098,846
Effects of retrospective application	-	-	-	-	-	-	-	67,290	67,290	67,290	-	67,290
Balance as of January 1, 2018 after adjustments	2,261,682	142,309	750,029	26,954	922,021	1,699,004	(31,756)	67,290	35,534	4,138,529	27,607	4,166,136
Net income for the period	-	-	-	-	1,063,990	1,063,990	-	-	-	1,063,990	6,376	1,070,366
Other comprehensive income for the period	-	-	-	-	(4,494)	(4,494)	(12,962)	(58,603)	(71,565)	(76,059)	(138)	(76,197)
Total comprehensive income for the period	-	-	-	-	1,059,496	1,059,496	(12,962)	(58,603)	(71,565)	987,931	6,238	994,169
Appropriation and distribution of retained earnings:												
Appropriation for legal reserve	-	-	92,202	-	(92,202)	-	-	-	-	-	-	-
Appropriation for special reserve	-	-	-	7,445	(7,445)	-	-	-	-	-	-	-
Cash dividends distributed to shareholders	-	-	(104,942)	-	(822,348)	(927,290)	-	-	-	(927,290)	-	(927,290)
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	1,355	1,355	-	(1,355)	(1,355)	-	-	-
Cash dividends from subsidiaries	-	-	-	-	-	-	-	-	-	-	(8,916)	(8,916)
Balance as of December 31, 2018	\$ 2,261,682	142,309	737,289	34,399	1,060,877	1,832,565	(44,718)	7,332	(37,386)	4,199,170	24,929	4,224,099

(See accompanying notes to consolidated financial statements.)

Chairman : Wu, Chi Yung

General Manager : Gau, Kuo Tung

Accounting Manager : Liao, Ming Tung

Holtek Semiconductor Inc. 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 operating activities:		
Income before income tax	\$ 1,245,589	1,069,790
Adjustments:		
Depreciation	57,598	57,019
Amortization	55,025	69,914
Expected credit impairment loss	3,066	-
Interest income	(14,568)	(10,556)
Dividends income	(7,715)	-
Investment income accounted for using equity method	(97,105)	(81,967)
Gains on disposals of investments accounted for using equity method	-	(17,215)
Unrealized gross profit on sales to associates	12,624	27,374
Other items not affecting cash flows, net	6,893	3,558
Changes in operating assets and liabilities:		
Decrease (increase) in available-for-sale financial assets	97,382	(222,513)
Increase in accounts receivable (including related parties)	(4,751)	(148,039)
Increase in inventories	(71,144)	(90,600)
Increase in other operating assets	(18,577)	(2,164)
Increase in accounts payable (including related parties)	19,821	34,597
Decrease in net defined benefit liabilities	(1,953)	(1,784)
Increase in other operating liabilities	8,904	37,824
Cash flows generated from operations	1,291,089	725,238
Interest received	14,576	10,108
Dividends received	51,763	63,626
Income tax paid	(126,976)	(99,701)
Net cash flows generated from operating activities	1,230,452	699,271
Cash flows from investing activities:		
Proceeds from disposal of financial assets at fair value through other comprehensive income	2,972	-
Acquisition of financial assets carried at cost	-	(14,717)
Acquisitions of investments accounted for using equity method	-	(12,106)
Acquisitions of property, plant and equipment	(47,892)	(34,301)
Proceeds from disposals of property, plant and equipment	797	1,544
Increase in refundable deposits	(3,320)	(222)
Net cash inflow from subsidiaries	-	371
Decrease in other financial assets	(57,110)	448,994
Increase in other non-current assets	(66,068)	(49,271)
Dividends received	7,715	-
Net cash flows generated from investing activities	(162,906)	340,292
Cash flows from financing activities:		
Cash dividends paid	(927,290)	(791,589)
Decrease (increase) in non-controlling interests	(11,823)	(4,703)
Net cash flows used in financing activities	(939,113)	(796,292)
Effect of foreign exchange changes	(2,529)	(850)
Net increase in cash and cash equivalents	125,904	242,421
Cash and cash equivalents at beginning of period	1,391,728	1,149,307
Cash and cash equivalents at end of period	\$ 1,517,632	1,391,728

(See accompanying notes to consolidated financial statements.)

Chairman : Wu, Chi Yung General Manager : Gau, Kuo Tung Accounting Manager : Liao, Ming Tung

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2018 and 2017

(Amounts expressed in thousands of New Taiwan Dollars,
except for per share information and unless otherwise noted)

1. Organization

Holtek Semiconductor Inc. (“the Company”) was incorporated on October 1, 1998, as a company limited by shares under the laws of the Republic of China (“ROC”) and the ROC Statute for the Establishment and Administration of the Science-Based Industrial Park. The Company began operations on December 11, 1998. The Company established a Hong Kong branch in April 2000. The shares of the Company have been listed on the Taipei Exchange (“TPEX”) since November 4, 2002, and then listed on the Taiwan Stock Exchange (“TWSE”) since September 27, 2004.

The Company and its subsidiaries (collectively as “the Group”) are engaged mainly in the research, development, production, manufacture and sales of integrated circuits.

2. The Authorization of Financial Statements

The accompanying consolidated financial statements were approved and authorized for issuance by the Board of Directors on January 28, 2019.

3. New Standards, Amendments and Interpretations Adopted

- (1) Impact of adoption of new, revised or amended standards and interpretations endorsed by the Financial Supervisory Commission, ROC (“FSC”)

In preparing the accompanying consolidated financial statements, the Company has adopted the following International Financial Reporting Standards (“IFRS”), International Accounting Standards (“IAS”), and Interpretations that have been issued by the International Accounting Standards Board (“IASB”) (collectively, “IFRSs”) and endorsed by the FSC, with effective date from January 1, 2018.

New, Revised or Amended Standards and Interpretations	Effective Date Issued by IASB
Amendment to IFRS 2 <i>Clarifications of Classification and Measurement of Share-based Payment Transactions</i>	January 1, 2018
Amendments to IFRS 4 Applying IFRS 9 <i>Financial Instruments</i> with IFRS 4 <i>Insurance Contracts</i>	January 1, 2018
IFRS 9 <i>Financial Instruments</i>	January 1, 2018
IFRS 15 <i>Revenue from Contracts with Customers</i>	January 1, 2018
Amendment to IAS 7 <i>Disclosure Initiative</i>	January 1, 2017

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

New, Revised or Amended Standards and Interpretations	Effective Date Issued by IASB
Amendment to IAS 12 <i>Recognition of Deferred Tax Assets for Unrealized Losses</i>	January 1, 2017
Amendment to IAS 40 <i>Transfers of Investment Property</i>	January 1, 2018
Annual Improvements IFRS 2014-2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 <i>Foreign Currency Transactions and Advance Consideration</i>	January 1, 2018

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 significant changes are as follows:

A. IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and the relevant interpretations. The standard provides a single model for determining whether an entity recognizes revenue in accordance with the method, timing and amount by applying the five step model. The Group adopted IFRS 15 in its consolidated financial statements using the cumulative effect approach. As a result, there is no need to reproduce the comparative information in previous periods. The Group recognized the cumulative effect upon the initially application of the principle as an adjustment to the opening balance of retained earnings on January 1, 2018.

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

Sales of goods

For the sales of goods, revenue is currently recognized when goods are shipped. The related risks and rewards of ownership have to be transferred. 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 is recognizes when a customer obtains control of the goods.

There were no significant differences on the consolidated statements of comprehensive income presented under the IFRS 15, IAS 18 Revenue and the relevant interpretations.

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

B. 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.

As a result of the adoption of IFRS 9, the Group adopted the consequential amendments to IAS 1 *Presentation of Financial Statements* which requires impairment of financial assets to be presented in a separate line item in the statement of profit or loss and other comprehensive income. Previously, the Group's approach was to include the impairment of receivables in administrative expenses. Additionally, 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.

The detail of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below:

(a) 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(7).

The adoption of IFRS 9 did not have any a significant impact on the Group's accounting policies on financial liabilities.

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

(b) Impairment of financial assets

IFRS 9 replaces the incurred loss model in IAS 39 with a forward-looking expected credit loss (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. For the related accounting policies on impairment of financial assets under IFRS 9, please refer to note 4(7).

(c) Transition

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

- Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognized in retained earnings and other equity interest as of 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.
 - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.
- If the credit risk of a debt securities investment is low under IFRS 9, the Group assumes that the credit risk of the asset has not increased significantly since the original recognition date.

Holtek Semiconductor and Subsidiaries

Notes to Consolidated Financial Statements

(d) 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. (the measurement categories and carrying amount of financial liabilities have not changed).

	IAS39		IFRS9	
	Measurement categories	Carrying Amount	Measurement categories	Carrying Amount
Financial Assets				
Cash and cash equivalents	Loans and receivables	1,391,728	Amortized cost	1,391,728
Equity instruments	Available-for-sale financial assets (note 1)	259,446	FVOCI	326,736
Accounts receivable, net	Loans and receivables	870,571	Amortized cost	870,571
Other financial assets-current (Time deposits more than 3 months)	Loans and receivables (Bond investment without an active market)	711,632	Amortized cost	711,632
Refundable deposits	Loans and receivables	7,972	Amortized cost	7,972

Note1 : These equity investments (financial assets carried at cost) represent investments that the Group intends to hold for the long term for strategic purposes. As permitted by IFRS 9, the Group has designated these investments at the date of initial application as measured at FVOCI. Therefore, the application of IFRS 9 has resulted in the increase in the book value of the assets mentioned as above and other equity by \$67,290 on January 1, 2018.

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 upon transition to IFRS 9 on January 1, 2018.

	December 31, 2017			January 1, 2018		
	IAS 39 Carrying Amount	Reclassifications	Remeasurements	IFRS 9 Carrying Amount	Retained earnings	Other equity
Financial assets measured at FVOCI						
Reclassification from available-for-sales financial assets (including financial assets carried at cost) under IAS 39	\$ -	259,446	-	259,446	-	-
Remeasurement from available-for-sales financial assets	-	-	67,290	67,290	-	67,290
	<u>\$ -</u>	<u>259,446</u>	<u>67,290</u>	<u>326,736</u>	<u>-</u>	<u>67,290</u>

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

C. Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealized Loss*

The amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value. The Group estimated the application of the amendments would not have any material impact on its consolidated financial statements.

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

According to Ruling No. 1070324857 issued on July 17, 2018 by the FSC, commencing from 2019, the Company is required to adopt the IFRSs that have been endorsed by the FSC with effective date from January 1, 2019. The related new, revised or amended standards and interpretations are set out below:

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

Except for the following items, the Group believes that the adoption of the above IFRS 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*.

Holtek Semiconductor and Subsidiaries

Notes to Consolidated Financial Statements

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.

(a) 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 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.

(b) 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.

The lessee applies the election consistently to all of its leases.

Holtek Semiconductor and Subsidiaries

Notes to Consolidated Financial Statements

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 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.
- adjust the right-of-use assets, based on the amount reflected in IAS 37 onerous contract provision, immediately before the date of initial application, as an alternative to an impairment review.
- apply the exemption not to recognize the right-of-use assets and liabilities to leases with lease term that ends within 12 months of the date of initial application.
- exclude the initial direct costs from measuring the right-of-use assets at the date of initial application.
- use hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

So far, the most significant impact identified is that the Group will have to recognize the new assets and liabilities for the operating leases of its offices. The Group estimated that the right-of-use assets and the lease liabilities to increase by \$108,335.

(ii) IFRIC 23 *Uncertainty over Income Tax Treatments*

In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates, an entity shall assume that a taxation authority will examine the amounts it has the right to examine and have a full knowledge on all related information when making those examinations.

Holtek Semiconductor and Subsidiaries

Notes to Consolidated Financial Statements

If an entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates consistently with the tax treatment used or planned to be used in its income tax filings. Otherwise, an entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty.

So far, the Group estimated the application of the new amendments will not have any material impact on its consolidated financial statements.

(3) The impact of IFRSs issued by IASB but not yet endorsed by the FSC

As of the date the following IFRSs that have been issued by the IASB, but not yet endorsed by the FSC:

New, Revised or Amended Standards and Interpretations	Effective Date Issued by IASB
Amendments to IFRS 3 <i>“Definition of a Business”</i>	January 1, 2020
Amendment to IFRS 10 and IAS 28 <i>Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture</i>	Effective date to be determined by IASB
IFRS 17 <i>Insurance Contracts</i>	January 1, 2021
Amendments to IAS 1 and IAS 8 <i>“Definition of Material”</i>	January 1, 2020

The Group is in the process of assessing the impact on financial position and results of operations of the above standards and interpretations. The Group will disclose the related results when the assessment is finalized.

4. Summary of Significant Accounting Policies

The significant accounting policies applied in the preparation of these consolidated financial statements are summarized as follows. Except for those described individually, the significant accounting policies have been applied consistently to all periods presented in these consolidated financial statements.

Holtek Semiconductor and Subsidiaries

Notes to Consolidated Financial Statements

(1) 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 FSC (hereinafter referred to as the IFRSs endorsed by the FSC).

(2) Basis of preparation

A. Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for the following material items in the balance sheets:

- (a) Financial assets measured at fair value through profit or loss are measured at fair value;
- (b) Fair value through other comprehensive income (Available-for-sale financial assets)are measured at fair value;
- (c)The net defined benefit liability is recognized as the fair value of the plan assets, less, the present value of the defined benefit obligation.

B. Functional and presentation currency

The functional currency of each Group entity is determined based on the primary economic environment in which the entity operates. The consolidated financial statements are presented in New Taiwan Dollars (NTD), which is the Company’s functional currency. All financial information presented in NTD has been rounded to the nearest thousand.

(3) Basis of consolidation

A. Principle of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Total non-controlling interests in the subsidiary are allocated to the non-controlling interests even if this results in the non-controlling interests 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.

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

B. List of subsidiaries in the consolidated financial statements

Name of Investor	Name of Subsidiary	Business	Percentage of Ownership at,	
			December 31, 2018	December 31, 2017
the Company	MCU Holdings Ltd. (MCU)	Investment holding company	100%	100%
the Company	Holtek Semiconductor Holding (BVI) Ltd. (Holtek BVI)	Investment holding company	100%	100%
the Company	Sigmos Holdings Ltd. (Sigmos)	Investment holding company	100%	100%
the Company	Kingtek Semiconductor Holding (BVI) Ltd. (Kingtek BVI)	Investment holding company	100%	100%
the Company	Holtek Investment Co., Ltd. (Holtek Investment)	Specialized investment corporation	100%	100%
MCU	Best Health Electronics Corp. (Best Health)	Manufacturing, sales and technical services	80% (Note 1)	80% (Note 1)
Best Health	Best Health Electronics (Dongguan) Corporation	Manufacturing, sales and technical services	100% (Note 2)	100% (Note 2)
MCU	Anchip Technology Corporation (Anchip)	Manufacturing, sales and technical services	60% (Note 3)	60% (Note 3)
Anchip	Anchip Technology (Dongguan) Corporation	Manufacturing, sales and technical services	100%	100%
MCU	Best Power Electronics Corp. (Best Power)	Manufacturing, sales and technical services	100% (Note 4)	- % (Note 4)
Holtek BVI	Holtek Semiconductor (Xiamen) Inc.	Manufacturing, sales and technical services	100%	100%
Holtek BVI	Holtek Semiconductor (China) Inc.	Manufacturing, sales and technical services	100%	100%
Sigmos	Holtek Semiconductor (USA) Inc. (Holtek (USA))	Manufacturing, sales and technical services	100%	100%

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

Name of Investor	Name of Subsidiary	Business	Percentage of Ownership at	
			December 31, 2018	December 31, 2017
Kingtek BVI	Holtek Semiconductor (Suzhou) Inc.	Manufacturing, sales and technical services	100%	100%
Holtek Investment	Holtek Semiconductor (INDIA) Private Ltd. (Holtek INDIA)	Manufacturing, sales and technical services	100% (Note 5)	- % (Note 5)
Holtek Investment	Best Solution Technology Inc. (Best Solution)	Manufacturing, sales and technical services	54.75% (Note 6)	54.75% (Note 6)
Best Solution	Best Solution Electronics Inc.	Manufacturing, sales and technical services	100%	100%
Holtek Investment	Best Modules Corp. (Best Modules)	Manufacturing, sales and technical services	100%	100%
Holtek Investment	BestComm RF Electronics Inc. (BestComm)	Manufacturing, sales and technical services	100%	100%
BestComm	BestComm RF Electronics (BVI) Inc. (BestComm BVI)	Manufacturing, sales and technical services	100%	100%
BestComm BVI	BestComm RF Electronics (Dongguan) Inc.	Manufacturing, sales and technical services	100% (Note 7)	- % (Note 7)

Note 1 : The Group established a wholly-owned subsidiary in 2Q17. Then the Group sold 20% shares of Best Health in September, 2017.

Note 2 : The Group established a wholly-owned subsidiary in 3Q17.

Note 3 : The Group acquired 20% shares of Anchip in September, 2017. As a result, it was accounted for as a subsidiary of the Company.

Note 4 : The Group established a wholly-owned subsidiary in 3Q18.

Note 5 : The Group established a wholly-owned subsidiary in 2Q18. The combined shareholding ratio is calculated both 99.9% owned by Holtek Investment and 0.1% owned by the Company.

Note 6 : The combined shareholding ratio is calculated both 40% owned by Holtek Investment directly and 36.875% indirectly held by the associate company which Holtek Investment owns its 40% shareholdings.

Note 7 : The Group established a wholly-owned subsidiary in 1Q18.

C. List of subsidiaries which are not included in the consolidated financial statements: None.

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

(4) Foreign currency

A. Foreign currency transactions

Transactions in foreign currencies are translated to the functional currencies 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 the 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. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of transaction.

B. Foreign operations

The assets and liabilities of foreign operations are translated to NTD using the exchange rates at the reporting date with the exception of shareholders' equity, which is translated at historical cost rates, and income and expenses, which are translated to NTD at the average rate for the period. 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 only 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 interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

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

The Group classifies an asset as current when any one of the following requirements is met. Assets that are not classified as current are non-current assets.

- A. It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
- B. It holds the asset primarily for the purpose of trading;
- C. It expects to realize the asset within twelve months after the reporting period; or
- D. The asset is cash or 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.

The Group classifies a liability as current when any one of the following requirements is met. Liabilities that are not classified as current are non-current liabilities.

- A. It expects to settle the liability in its normal operating cycle;
- B. It holds the liability primarily for the purpose of trading;
- C. The liability is due to be settled within twelve months after the reporting period; or
- D. It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

(6) Cash and cash equivalents

Cash comprise cash and cash in bank. Cash equivalents are short-term and 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 held for the purpose of meeting short-term cash commitments rather than for investment or other purposes are classified as cash equivalents.

(7) Financial instruments (applicable starting from January 1, 2018.)

A. Financial assets

The Group classifies financial assets into the following categories: financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income and financial assets measured at fair value through profit or loss. Only when the business model for managing financial assets is changed shall all affected financial assets be reclassified.

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

(a) 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 measured at fair value through profit or loss:

- it is held within a business model whose objective is to hold financial 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.

Such financial assets are recognized initially at fair value, plus any directly attributable transaction costs. Subsequently, these assets are measured at amortized cost using the effective interest method, less any impairment losses. Interest income, foreign exchange gains and losses and recognition (reversal) of impairment losses are recognized in profit or loss.

(b) Financial assets measured at fair value through other comprehensive income

On initial recognition, the Group is able to make an irrevocable election to present in other comprehensive income for subsequent changes in the fair value of an investment in an equity instrument that is not held for trading. This election is made on an instrument-by-instrument basis.

Such financial assets are recognized initially at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, except dividends on equity investments (unless the dividend clearly represents a recovery of part of the cost of the investment) are recognized in profit or loss, are recognized in other comprehensive income and presented under other equity — unrealized gains (losses) on financial assets measured at fair value through other comprehensive income. When an investment is derecognized, the cumulative gain or loss in equity will not be reclassified to profit or loss, instead, is reclassified to retained earnings.

Dividend income on equity instruments is recognized on the date that the Group's right to receive dividends is established.

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

(c) Financial assets measured at fair value through profit or loss

All financial assets not classified as measured at amortized cost or at fair value through other comprehensive income as described above are measured at fair value through profit or loss. This includes all derivative financial assets.

Such financial assets are recognized initially at fair value, and attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, they are measured at fair value, and changes therein are recognized in profit or loss.

(d) 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, receivables, other financial assets and refundable deposits).

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

- debt securities that are determined to have low credit risk at the reporting date ; and
- other debt securities and 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 accounts receivable 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

Holtek Semiconductor and Subsidiaries

Notes to Consolidated Financial Statements

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

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of investment grade which is considered to be BBB- or higher per Standard & Poor's, Baa3 or higher per Moody's or twA or higher per Taiwan Ratings.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Group considers a financial asset to be in default when the financial asset is more than 180 days past due and the borrower is unlikely to pay its credit obligations to the Group in full.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls. 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.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. The loss allowance is charged to profit 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.

(e) De-recognition of financial assets

The Group derecognizes financial assets when the contractual rights of 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.

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

(8) Financial instruments (applicable before January 1, 2018)

A. Financial assets

(a) Financial assets measured at fair value through profit or loss

Financial assets are classified as held for trading if they are acquired principally for the purpose of selling in the short term. Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, when an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, and is included in non-operating income and expenses. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade-date accounting.

(b) Receivables

Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Receivables comprise trade receivables and other receivables. Such assets are recognized initially at fair value, plus any directly attributable transaction costs. Subsequently, receivables are measured at amortized cost using the effective interest method, less any impairment. If the effect of discounting is immaterial, the short-term receivables are measured at the original amount.

(c) Financial assets carried at cost

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are initially recognized at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition, these investments are measured at amortized cost.

(d) Impairment of financial assets

A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event has an impact on the estimated future cash flows of the financial asset that can be estimated reliably.

Holtek Semiconductor and Subsidiaries

Notes to Consolidated Financial Statements

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 may cause the actual losses are likely to be greater or less than those suggested by historical trends.

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

If, in a subsequent period, the amount of impairment loss on a financial asset 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 the impairment was recognized at the reversal date.

(e) De-recognition of financial assets

The Group derecognizes financial assets when the contractual rights of 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.

B. Financial liabilities

(a) Accounts payable

Financial liabilities not classified as available-for-trading, or not designated as measured at fair value through profit or loss, which comprise accounts payable, and other payables, are measured at fair value plus any directly attributable transaction cost at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method.

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

(b) De-recognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligation has been discharged or cancelled, or has expired. The difference between the carrying amount of a financial liability removed and the consideration paid is recognized in non-operating income and expenses.

(c) Offsetting of financial assets and liabilities

The Group presents financial assets and liabilities on a net basis when the Group has the legally enforceable right 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.

(9) Inventories

Inventories are measured at the lower of cost or net realizable value. The cost of inventories is based on the weighted average method and includes expenditure and other costs incurred in bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(10) Investment in associates

Associates are those entities in which the Group has significant influence, but not control, over their financial and operating policies. When the Group holds 20% to 50% of the voting rights of the investee company, it assumes that it has significant influence and adopts equity evaluation.

Under the equity method, investments in associates 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 their accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

Unrealized profits resulting from the transactions between the Group and associates are eliminated to the extent of the Group's interest in the associate.

When the Group's share of losses exceeds its interest in associates, the carrying amount of that 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 a present legal or constructive obligation or has made payments on behalf of the investees.

(11) Property, plant and equipment

A. 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 attributed to the acquisition of the asset, 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, and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. The cost of the software is capitalized as part of the equipment if the purchase of the software is necessary for the equipment to be capable of operating.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately, unless the useful life and the depreciation method of a significant part of an item of property, plant and equipment are the same as the useful life and depreciation method of another significant part of that same item.

The gain or loss arising from the de-recognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and it shall be recognized as non-operating income and expenses.

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

B. Subsequent cost

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

C. Depreciation

The depreciable amount of an asset is determined after deducting its residual amount, and it shall be allocated on a straight-line basis over its useful life. Each significant item of property, plant and equipment shall be evaluated individually and depreciated separately if it possesses a different useful life. The depreciation charge for each period shall be recognized in profit or loss.

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

- (a) Buildings: 20 to 40 years
- (b) Machinery and equipment: 3 to 5 years
- (c) Other equipment: 2 to 8 years

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

(12) Leases

Payments made under operating lease are recognized in expenses on a straight-line basis over the term of the lease.

(13) Intangible assets

A. Research and development

During the research phase, activities are carried out to obtain and understand new scientific or technical knowledge. Expenditures during this phase are recognized in profit or loss as incurred.

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

Expenditures arising from the development phase shall be recognized as an intangible asset if all the conditions described below can be demonstrated; otherwise, they will be recognized in profit or loss as incurred.

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

B. Other intangible assets

Other intangible assets acquired by the Group are measured at cost less accumulated amortization and any accumulated impairment losses.

C. Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates.

D. Amortization

The depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value. Amortization is recognized in profit or loss on a straight-line basis over estimated useful lives from the date that intangible assets are available for use.

The residual value, amortization period, and amortization method for an intangible asset with a finite useful life shall be reviewed at least annually at each reporting date. Any change shall be accounted for as changes in accounting estimates.

(14) Impairment of non-financial assets

The Group measures whether impairment has occurred in non-financial assets (except for inventories and deferred income tax assets) on every reporting date, and when there is an indication of impairment exist, the Group estimates its recoverable amount.

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

The recoverable amount for an 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 shall be reduced to its recoverable amount. That reduction is an impairment loss. An impairment loss shall be recognized immediately in profit or loss.

The Group would assess at each reporting date 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. An impairment loss recognized in prior periods for an asset other than goodwill shall be 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. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount as a reversal of a previously recognized impairment loss.

(15) Revenue from contract with customers (applicable starting 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 accounting policies for the Group's main types of revenue are explained below:

A. Sale of goods

The Group is engaged mainly in the research, development, production, manufacture and sales of integrated circuits. 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.

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

B. Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

(16) Revenue recognition (applicable before January 1, 2018)

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists 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.

(17) Employee benefits

A. Defined contribution plans

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

B. Defined benefit plans

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any fair value of any plan asset is deducted. The discount rate is the yield at the reporting date (market yields of government bonds) on bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

Holtek Semiconductor and Subsidiaries

Notes to Consolidated Financial Statements

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, 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 any plan in the Group. 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.

Remeasurements of the net defined benefit liability, which comprise (1) actuarial gains and losses (2) the return on plan assets (excluding interest) and (3) the effect of asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income.

C. Short-term employee benefits

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

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(18) Income tax

Income tax expenses include both current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes shall be recognized in profit or loss.

Current taxes include tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using the statutory tax rate on the reporting date, as well as tax adjustments related to prior years.

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases.

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

Holtek Semiconductor and Subsidiaries

Notes to Consolidated Financial Statements

Deferred tax assets and liabilities may be offset against each other if the following criteria are met:

A. The entity has the legal right to settle tax assets and liabilities on a net basis; and

B. the taxing of deferred tax assets and liabilities fulfills one of the scenarios below:

(a) levied by the same taxing authority; or

(b) levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

A deferred tax asset should be recognized for the carry forward of 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 credits and deductible temporary differences can be utilized. Such unused tax credits and deductible temporary differences shall also be re-evaluated every year on the financial reporting date, and adjusted based on the probability that future taxable profit will be available against which the unused tax credits and deductible temporary differences can be utilized.

(19) Earnings per share

The Group discloses the Company's basic and diluted earnings per share attributable to ordinary shareholders of the Company. The calculation of basic earnings per share is based on the profit attributable to the ordinary shareholders of the Company divided by the weighted-average number of ordinary shares outstanding. The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of the Company, divided by the weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares, such as convertible bonds payable, unvested restricted stock awards and employee remuneration through the issuance of shares. The weighted-average outstanding shares are retroactively adjusted for the effects of stock dividends transferred from retained earnings and capital surplus to ordinary shares.

(20) Operating segment information

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to

Holtek Semiconductor and Subsidiaries

Notes to Consolidated Financial Statements

transactions with other components of the Group). 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 to assess its performance. Each operating segment consists of standalone financial information.

5. Major Sources of Accounting Judgments, Estimations and Assumptions of Uncertainty

The preparation of the consolidated financial statements in conformity with the Regulations and the IFRSs endorsed by the FSC requires management to make judgments, estimations 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 estimations.

Management continues to monitor the accounting estimations and assumptions. Management recognizes any changes in the accounting estimations during the period in which the estimates are revised and in any future periods affected.

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:

Valuation of inventories

Inventories are stated at the lower of cost or net realizable value, and the Group uses judgments and estimates to determine the net realizable value of inventory for obsolescence and unmarketable items at the reporting period. It also writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on the assumptions of the estimated selling price of the products within a specific time horizon. However, due to the rapid industrial transformation, the above estimation may have a significant change. Please refer to note 6(6) for further description of the valuation of inventories.

The Group's accounting policies include measuring financial and non-financial assets and liabilities at fair value through profit or loss. The Group's financial instrument valuation group conducts independent verification on fair value by using data sources that are independent, reliable, and representative of exercise prices. This financial instrument valuation group also periodically adjusts valuation models, conducts back testing, renews input data for valuation models, and makes all other necessary fair value adjustments to assure the rationality of fair value.

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

The Group strives to use market observable inputs when measuring assets and liabilities. Different levels of the fair value hierarchy to be used in determining the fair value of financial instruments are as follows:

Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

For any transfer within the fair value hierarchy, the impact of the transfer is recognized on the reporting date. Please refer to Note 6(18) for assumptions used in measuring fair value.

6. Description of Significant Accounts

(1) Cash and cash equivalents

	December 31,	
	2018	2017
Cash and cash in bank	\$ 355,036	295,513
Time deposits	1,162,596	1,096,215
	<u>\$ 1,517,632</u>	<u>1,391,728</u>

(2) Financial assets measured at fair value through profit or loss

	December 31,	
	2018	2017
Financial assets available-for-sale — beneficiary certificates	<u>\$ 486,555</u>	<u>582,902</u>

If there had been an increase or decrease in the fair value of securities of 1% on the reporting date, net income would have increased (or decreased) by \$3,892 and \$4,838 for the years ended December 31, 2018 and 2017, respectively. The analysis is performed on the same basis for both periods and assumes that all other variables remain constant.

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

(3) Equity instruments at FVOCI- non-current

	<u>December 31, 2018</u>
Equity securities – unlisted company	
Unitech Capital Inc. (Unitech)	\$ 60,848
Shieh Yong Investment Co., Ltd. (Shieh Yong)	161,110
Gingy Technology Corporation. (Gingy)	<u>43,203</u>
	<u>\$ 265,161</u>

The purpose that the Group invests in the abovementioned equity securities is for long-term strategies, but rather for trading purpose. Therefore, those equity securities are designated as at FVOCI, whereas, were presented under financial assets carried at cost-non-current as of December 31, 2017.

The Group sold part of equity instruments at fair value of \$2,972 through other comprehensive income. The Group realized a gain of \$1,355, which was already included in other comprehensive income, and the realized gain was transferred to retained earnings.

The Group received the dividend income \$7,715.

Please refer to note 6(18) for the information of the credit risk and market risk.

(4) Financial assets carried at cost-non-current

	<u>December 31, 2017</u>
Equity securities – unlisted company	
Unitech Capital Inc. (Unitech)	86,750
Shieh Yong Investment Co., Ltd. (Shieh Yong)	143,000
Gingy Technology Corporation. (Gingy)	<u>29,696</u>
	<u>259,446</u>

The aforementioned investments held by the Group were measured at amortized cost as of December 31 2017, given the range of reasonable fair value estimates is large and the probability for each estimate cannot be reasonably determined; therefore, the Group management had determined that the fair value cannot be measured reliably. The Group classified the above investments as financial assets at FVOCI-non-current as of December 31, 2018.

Please refer to note 6(18) for the information of the credit risk and market risk.

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

(5) Notes and accounts receivable, net (including related parties)

	December 31,	
	2018	2017
Notes receivable	\$ 278	827
Accounts receivable	107,785	121,730
Accounts receivable from related parties	<u>749,789</u>	<u>755,407</u>
	857,852	877,964
Less: allowance for doubtful accounts	<u>(10,459)</u>	<u>(7,393)</u>
	<u>\$ 847,393</u>	<u>870,571</u>

The Group applies the simplified approach to provide for its loss allowance used for ECL, which permit the use of lifetime expected loss provision for notes and accounts receivable as of December 31, 2018. The ECL on notes and accounts receivable by reference to past default experience of the customers and credit risk characteristics, as well as forward looking information, the loss allowance as of December 31, 2018 was determined as follows:

	Gross carrying amount	Weighted-average loss rate	Loss allowance
Not past due	\$ 840,254	0.5%~0.15%	7,232
Past due 0~90days	<u>3,215</u>	5.00	<u>161</u>
	<u>\$ 843,469</u>		<u>7,393</u>

Individual customers' accounts receivable amounted to \$14,383 as of December 31, 2018, which has been assessed as having default risk. Therefore, the Group provides the loss allowance for the customer amounted to \$3,066 as of December 31, 2018.

As of December 31, 2017, the Group applies the incurred loss model to consider the allowance for doubtful accounts of notes and accounts receivable. The Group has no overdue notes and accounts receivable (including related parties) without impairment.

No impairment loss of the notes and accounts receivables were occurred and recognized for the years ended December 31, 2018 and 2017.

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

Changes in the loss allowance for the Group's notes and accounts receivable was as follows:

	For the year ended December 31,	
	2018	2017
		Collectively assessed impairment
Beginning balance (according to IAS39)	\$ 7,393	<u>7,393</u>
Adjustments on initial application of IFRS 9	<u>-</u>	
Beginning balance (according to IFRS 9)	7,393	
Impairment losses recognized	<u>3,066</u>	
Ending balance	<u>\$ 10,459</u>	

Note : The ending balances are the same as the opening balance for the years ended December 31, 2017.

(6) Inventories

	December 31,	
	2018	2017
Raw materials	\$ 179,234	116,727
Work in process	285,285	244,516
Finished goods and merchandise inventories	<u>190,347</u>	<u>233,346</u>
	<u>\$ 654,866</u>	<u>594,589</u>

The details of operating costs were as follows:

	For the year ended December 31,	
	2018	2017
Cost of goods sold	\$ 2,448,406	2,421,179
Cost of scrap materials	<u>7,427</u>	<u>4,278</u>
	<u>\$ 2,455,833</u>	<u>2,425,457</u>

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

(7) Other financial assets-current

	December 31,	
	2018	2017
Time deposits (more than 3 months)	\$ 760,610	703,579
Restricted cash in banks	3,712	3,820
Others	19,853	4,233
	\$ 784,175	711,632

No impairment loss of other financial assets-current were occurred and recognized for the year ended December 31, 2018 and 2017.

Please refer to note 6 (18) for further information of credit risk.

(8) Investments accounted for using equity method

Investments in equity-accounted investees at the reporting dates consisted of the following:

	December 31,	
	2018	2017
Total amount of equities in associates	\$ 550,555	508,045
Less: unrealized gross profits on sales to associates	(101,540)	(88,916)
	\$ 449,015	419,129

There is no individually significant associate for the Group. The following table summarized the amount recognized by the Group at its share of those associates.

	For the year ended December 31,	
	2018	2017
Other comprehensive income attributable to the Group:		
Net income from continuing operation	\$ 97,105	81,967
Other comprehensive income	(521)	456
Total comprehensive income	\$ 96,584	82,423

Due to the loss of controlling influence on the insignificant affiliates individually, the Group reclassified the investment of affiliates using equity method to the financial assets carried at cost and recognized the disposal profit in 1Q, 2017.

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

(9) Property, plant and equipment

Changes in the cost, and depreciation of the Group's property, plant and equipment were as follows:

	Land	Buildings	Machinery and equipment	Other equipment	Total
Cost:					
Balance as of January 1, 2018	\$ 26,676	517,847	355,953	84,913	985,389
Additions	-	3,319	39,941	4,632	47,892
Disposals	-	-	(10,811)	(1,374)	(12,185)
Effect of foreign exchange changes	-	(5,194)	(2,466)	(956)	(8,616)
Balance as of December 31, 2018	<u><u>\$ 26,676</u></u>	<u><u>515,972</u></u>	<u><u>382,617</u></u>	<u><u>87,215</u></u>	<u><u>1,012,480</u></u>
Balance as of January 1, 2017	\$ 26,676	519,709	348,181	95,431	989,997
Additions	-	1,311	24,540	8,450	34,301
Disposals	-	-	(15,600)	(18,349)	(33,949)
Effect of foreign exchange changes	-	(3,173)	(1,168)	(619)	(4,960)
Balance as of January 1, 2017	<u><u>\$ 26,676</u></u>	<u><u>517,847</u></u>	<u><u>355,953</u></u>	<u><u>84,913</u></u>	<u><u>985,389</u></u>
Accumulated depreciation:					
Balance as of January 1, 2018	\$ -	221,227	293,422	56,011	570,660
Depreciation for the period	-	22,669	24,115	10,814	57,598
Disposals	-	-	(9,658)	(1,157)	(10,815)
Effect of foreign exchange changes	-	(1,230)	(1,572)	(676)	(3,478)
Balance as of December 31, 2018	<u><u>\$ -</u></u>	<u><u>242,666</u></u>	<u><u>306,307</u></u>	<u><u>64,992</u></u>	<u><u>613,965</u></u>
Balance as of January 1, 2017	\$ -	199,772	285,254	62,401	547,427
Depreciation for the period	-	21,891	22,937	12,191	57,019
Disposals	-	-	(13,896)	(18,274)	(32,170)
Effect of foreign exchange changes	-	(436)	(873)	(307)	(1,616)
Balance as of December 31, 2017	<u><u>\$ -</u></u>	<u><u>221,227</u></u>	<u><u>293,422</u></u>	<u><u>56,011</u></u>	<u><u>570,660</u></u>
Book value:					
Balance as of December 31, 2018	<u><u>\$ 26,676</u></u>	<u><u>273,306</u></u>	<u><u>76,310</u></u>	<u><u>22,223</u></u>	<u><u>398,515</u></u>
Balance as of December 31, 2017	<u><u>\$ 26,676</u></u>	<u><u>296,620</u></u>	<u><u>62,531</u></u>	<u><u>28,902</u></u>	<u><u>414,729</u></u>
Balance as of January 1, 2017	<u><u>\$ 26,676</u></u>	<u><u>319,937</u></u>	<u><u>62,927</u></u>	<u><u>33,030</u></u>	<u><u>442,570</u></u>

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

(10) Operating lease

A. Based on the terms of lease contracts of office buildings, parking spaces, and staff dormitory, the future minimum lease payments are as follows:

	December 31,	
	2018	2017
Less than one year	\$ 22,581	10,894
Between one and two years	18,640	3,989
More than two years	8,649	6,967
	\$ 49,870	21,850

B. The Group entered into a land lease agreement with the Hsinchu Science Park Administration. The term of the lease is from March 15, 2001 to December 31, 2020. When the lease term expires, a new agreement will be offered. The annual rental fee is around \$3,558 from February 2018. The rental payment is subject to the adjustment as the government revise the land value.

(11) Employee benefits

A. Defined benefit plans

The present value of the defined benefit obligation and the fair value adjustments of the plan assets for the Group were as follows:

	December 31,	
	2018	2017
Present value of the defined benefit obligation	\$ 127,611	123,354
Fair value of plan assets	(51,009)	(50,416)
Net defined benefit liabilities	\$ 76,602	72,938

The Group makes defined benefit plan contributions to the pension fund account at Bank of Taiwan that provides pensions for employees upon retirement. The plans (covered by the Labor Standards Law) entitle a retired employee to receive an annual payment based on years of service and average salary for the six months prior to retirement.

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

(a) Composition of plan assets

The Group allocates pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Bureau of Labor Funds, Ministry of Labor (hereinafter referred to as the Bureau of Labor Funds). Minimum earnings shall be no less than the earnings attainable from two-year time deposits with interest rates offered by local banks.

The Group's Bank of Taiwan labor pension reserve account balance amounted to \$51,009 as of December 31, 2018. For information on the utilization of the labor pension fund assets including the asset allocation and yield rate of the fund, please refer to the website of the Bureau of Labor Funds.

(b) Changes in the present value of the defined benefit obligation

The changes in the present value of the defined benefit obligation of the Group for the years ended December 31, 2018 and 2017 were as follows:

	For the year ended December 31,	
	2018	2017
Defined benefit obligation as of January 1	\$ 123,354	118,013
Benefits paid from plan assets	(4,234)	(1,310)
Current service costs and interest	1,480	1,770
Remeasurements of the net defined benefit liabilities		
— Actuarial loss (gain) arising from changes in financial assumptions	3,225	4,941
— Actuarial loss (gain) arising from experience adjustments	3,786	(60)
Defined benefit obligation as of December 31	<u>\$ 127,611</u>	<u>123,354</u>

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

(c) Changes in the fair value of the defined benefit plan assets

The changes in the fair value of the defined benefit plan assets of the Group for the years ended December 31, 2018 and 2017 were as follows:

	For the year ended December 31,	
	2018	2017
Fair value of plan assets as of January 1	\$ 50,416	48,439
Benefits paid from plan assets	(4,234)	(1,310)
Interest income	622	748
Contributions made	2,812	2,806
Remeasurements of the net defined benefit liabilities		
— Return on plan assets (excluding current interest)	1,393	(267)
Fair value of plan assets as of December 31	<u>\$ 51,009</u>	<u>50,416</u>

(d) Expenses recognized in profit or loss

The Group's expenses recognized in profit or loss for the years ended December 31, 2018 and 2017, were as follows:

	For the year ended December 31,	
	2018	2017
Net interest on the net defined benefit liabilities	<u>\$ 858</u>	<u>1,022</u>
Cost of goods sold	\$ 57	70
Selling expenses	65	79
General and administrative expenses	152	185
Research and development expenses	584	688
	<u>\$ 858</u>	<u>1,022</u>

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

- (e) Remeasurements of the net defined benefit liabilities recognized in other comprehensive income

The Group's remeasurements of the net defined benefit liabilities recognized as accumulated in other comprehensive income for the years ended December 31, 2018 and 2017 were as follows:

	For the year ended December 31,	
	2018	2017
Cumulative amount as of January 1	\$ 15,885	10,737
Recognized for the period	5,618	5,148
Cumulative amount as of December 31	<u>\$ 21,503</u>	<u>15,885</u>

- (f) Actuarial assumptions

The following are the Group's significant actuarial assumptions of the present value of the defined benefit obligation at the reporting date:

	December 31,	
	2018	2017
Discount rate	1.00%	1.20%
Future salary increase rate	2.00%	2.00%

The Group expects to make a contribution of \$2,880 to its defined benefit plans in the following year, beginning December 31, 2018.

The weighted-average duration of the defined benefit obligation is 12.6 years.

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

(g) Sensitivity analysis

If there is a change in the actuarial assumptions as of the December 31, 2018 and 2017, the impact on the defined benefit obligation would be as follows:

<u>Actuarial assumptions</u>	Impact on the defined benefit obligation	
	<u>1% increase</u>	<u>1% decrease</u>
December 31, 2018		
Discount rate	<u>\$ (15,127)</u>	<u>17,814</u>
Future salary increase rate	<u>16,056</u>	<u>(14,039)</u>
December 31, 2017		
Discount rate	<u>\$ (15,542)</u>	<u>18,433</u>
Future salary increase rate	<u>\$ 16,710</u>	<u>(14,503)</u>

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown above. In practical, the relevant actuarial assumptions are correlated to each other. The method used in the sensitivity analysis is consistent with the calculation of pension liabilities in the balance sheets.

There is no change in the method and assumptions used in the preparation of sensitivity analysis for 2018 and 2017.

B. Defined contribution plans

In accordance with the provisions of the Labor Pension Act, the Company and domestic subsidiaries should contribute 6% of its employees' monthly wages to their labor pension personal accounts of the Bureau of Labor Insurance, Ministry of Labor (hereinafter referred to as the Bureau of Labor Insurance). Under this defined contribution plan, the Group contributes a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligations. The Group's pension costs under the defined contribution plan were \$21,702 and \$20,523 for the years ended December 31, 2018 and 2017, respectively.

Except for the above, the total pension costs of the Group's overseas branch and subsidiaries under their respective defined contribution plan were \$22,704 and \$19,089 for the years ended December 31, 2018 and 2017, which were recognized in accordance with their local regulations.

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

(12) Income tax

A. Income tax expenses

According to the amendments to the “Income Tax Act” enacted by the office of the President of the R.O.C. 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 from 2018.

The amount of income tax expenses for the years ended December 31, 2018 and 2017, was as follows:

	For the year ended December 31,	
	2018	2017
Current income tax expense		
Current period	\$ 142,444	119,475
Adjustment to prior years	(3,754)	509
	<u>138,690</u>	<u>119,984</u>
Deferred income tax expense		
Temporary differences	24,376	13,819
Adjustment in tax rate	12,157	-
	<u>36,533</u>	<u>13,819</u>
Income tax expenses	<u>\$ 175,223</u>	<u>133,803</u>

The amount of income tax expense (benefit) recognized in other comprehensive income for the years ended December 31, 2017 and 2016, was as follows:

	For the year ended December 31,	
	2018	2017
Items that will not be reclassified subsequently to profit or loss:		
Remeasurements of the defined benefit plans	<u>\$ (1,124)</u>	<u>(875)</u>
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of foreign affiliates	(3,870)	(1,602)
Exchange differences on translation of financial statements of invested associates accounted for using equity method	<u>(120)</u>	<u>77</u>
	<u>\$ (3,990)</u>	<u>(1,525)</u>

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

The reconciliation of income tax expenses and income before income tax was as follows:

	For the year ended December 31,	
	2018	2017
Income before income tax	\$ 1,245,589	1,069,790
Income tax at the Company's domestic tax rate	249,118	181,864
Effect of tax rates in foreign jurisdiction	1,976	2,687
Permanent differences adjustment	(8,244)	(11,358)
Tax-exempt income	(77,572)	(55,078)
Estimated increase in investment tax credit	(2,498)	-
Basic income tax	-	8,619
Adjustment in tax rate	12,157	-
Other	286	7,069
	\$ 175,223	133,803

B. The changes of deferred tax assets and liabilities were as follows:

Deferred tax assets

	January 1, 2017	Recognized in profit or loss	Recognized in other comprehensive income	December 31, 2017	Recognized in profit or loss	Recognized in other comprehensive income	December 31, 2018
Unrealized loss from Inventory devaluation	\$ 10,200	-	-	10,200	(1,800)	-	10,200
Unrealized gross profit from sales to associates	16,976	(6,525)	-	23,501	(10,920)	-	34,421
Net defined benefit liabilities	11,827	303	(875)	12,399	(1,797)	(1,124)	15,320
Loss from exchange differences on translation of financial statements of foreign affiliates	1,878	-	(1,525)	3,403	-	(3,990)	7,393
Others	199	199	-	-	(572)	-	572
	\$ 41,080	(6,023)	(2,400)	49,503	(15,089)	(5,114)	69,706

Deferred tax liabilities

	January 1, 2017	Recognized in profit or	Recognized in other comprehensive income	December 31, 2017	Recognized in profit or	Recognized in other comprehensive income	December 31, 2018
--	----------------------------	--	---	------------------------------	--	---	------------------------------

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

		<u>loss</u>	<u>income</u>		<u>loss</u>	<u>income</u>	
Foreign investment gains under the equity method	\$ (94,217)	19,719	-	(113,936)	51,556	-	(165,492)
Others	(929)	123	-	(1,052)	66	-	(1,118)
	<u>\$ (95,146)</u>	<u>19,842</u>	<u>-</u>	<u>(114,988)</u>	<u>51,622</u>	<u>-</u>	<u>(166,610)</u>

C. The tax authorities have assessed the Company's income tax returns through 2015.

(13) Capital and other equity interest

A. Ordinary shares

As of December 31, 2018 and 2017, the authorized capital of the Company amounted to \$3,000,000, of which included the amount of \$200,000 reserved for employee stock options and the amount of \$500,000 for convertible bonds. The Company's issued and outstanding common stock, with par value of \$10 dollars per share, both amounted to \$2,261,682 as at December 31, 2018 and 2017.

B. Capital surplus

The balances of capital surplus as of December 31, 2018 and 2017, were as follows:

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Capital surplus — premium	<u>\$ 142,309</u>	<u>142,309</u>

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 distributed as stock or cash dividends. The aforementioned realized capital surplus includes capital surplus resulting from premium on issuance of capital stock and earnings from donated assets received.

Pursuant to the R.O.C. Regulations Governing the Offering and Issuance of Securities by Securities Issuers, the total sum of the capital surplus capitalized per annum shall not exceed 10% of the paid-in capital.

C. Retained earnings

According to the Company's Articles of Incorporation, if the Company has profit as a result of the accounting year, the Company shall first pay taxes, offset its losses in previous years and set aside a legal reserve at 10% of the profits left over, until the accumulated legal capital reserve has equaled the total capital of the Company, then set aside special capital reserve in accordance with relevant laws or regulations or as requested by business. Any rest balance, added to the accumulated undistributed earnings in previous years, shall be

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

allocated by board of directors and shall be approved in shareholders' meeting.

The amount of dividends distributed to shareholders shall be no less than 50% of the distributable earnings of the year and no less than 50% of the shareholder's dividends shall be in the form of cash.

(a) Legal reserve

Pursuant to the R.O.C. Company Act, the appropriation for legal reserve shall be made until the reserve equals the Company's paid-in capital. If the Company incurs no loss, the reserve may be distributed as cash or stock dividends for the portion in excess of 25% of the paid-in capital.

(b) Special reserve

By choosing to apply exemptions granted under IFRS 1 during the Company's first-time adoption of the IFRSs endorsed by the FSC, cumulative translation adjustments under shareholders' equity shall be reclassified as retained earnings at the adoption date. The increase in retained earnings occurring before the adoption date due to the first-time adoption of the IFRSs endorsed by the FSC amounted to \$18,008. And the Company's actuarial gains and losses be reclassified as retained earnings at the adoption date. The decrease in retained earnings occurring before the adoption date due to the first-time adoption of the IFRSs endorsed by the FSC amounted to \$13,410. In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, a net increase in retained earnings due to the first-time adoption of the IFRSs endorsed by the FSC shall be reclassified as a special reserve amounted to \$4,598 during earnings distribution, and when the relevant asset is used, disposed of, or reclassified, this special reserve shall be reversed as distributable earnings proportionately.

The Company liquidated its subsidiary, Holtek Semiconductor (Shenzhen) Inc. in August, 2014. In accordance with the provisions of the above-mentioned regulations, the special reserve was reclassified to retained earnings amounted to \$1,956. The carrying amount of special reserve both amounted to \$2,642 as of December 31, 2018 and 2017.

In accordance with the guidelines of the above Ruling, a portion of current-period earnings and undistributed prior-period earnings shall be reclassified as a special reserve during earnings distribution. The amount to be reclassified should be equal to the difference between the total net current-period reduction of special reserve resulting from the first-time adoption of the IFRSs endorsed by the FSC and the carrying amount of other shareholders' equity as stated above. Similarly, a portion of undistributed

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

prior-period earnings shall be reclassified as a special reserve (which does not qualify for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior periods due to the first-time adoption of the IFRSs endorsed by the FSC. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions.

(c) Earnings distribution

The following are the appropriation of earnings in 2017 and 2016 which were approved in the shareholders' meeting held on May 28, 2018 and May 26, 2017, respectively:

	For the year ended December 31,			
	2017		2016	
	NT dollars per share	Total amount	NT dollars per share	Total amount
Cash dividends distributed to ordinary shareholders:	\$ <u>4.10</u>	<u>927,290</u>	<u>3.50</u>	<u>791,589</u>

(14) Earnings per share

The Company's calculation of basic earnings per share was as follows:

	For the year ended December 31,	
	2018	2017
Basic earnings per share:		
Net income for the period	\$ <u>1,063,990</u>	<u>926,188</u>
Weighted-average number of ordinary shares outstanding during the year (in thousands)	<u>226,168</u>	<u>226,168</u>
Basic earnings per share (NT dollars)	\$ <u>4.70</u>	<u>4.10</u>
Diluted earnings per share:		
Net income for the period	\$ <u>1,063,990</u>	<u>926,188</u>
Weighted-average number of ordinary shares outstanding during the year (in thousands)	226,168	226,168
Remuneration to employees	<u>2,335</u>	<u>1,746</u>
Weighted-average number of ordinary shares outstanding during the year (diluted) (in thousands)	<u>228,503</u>	<u>227,914</u>
Diluted earnings per share (NT dollars)	\$ <u>4.66</u>	<u>4.06</u>

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

(15) Remuneration to employees and directors

According to the Company's Articles of Incorporation, when allocating the net profits for each fiscal year, the Company shall distribute 5~15% of profit of the current year distributable as employees' compensation and no more than 1.5% of profit of the current year distributable as remuneration of directors and supervisors. However, the Company's accumulated losses shall have been covered.

The remunerations to employees amounted to \$129,225 and \$111,567, and the remunerations to directors amounted to \$14,248 and \$12,286 for the years ended December 31, 2018 and 2017, respectively. These amounts were calculated using the Company's net income before tax without the remunerations to employees and directors for each period, multiplied by the percentage which is stated under the Company's Article of Incorporation. These remunerations were expensed under cost of goods sold or expenses for the years ended December 31, 2018 and 2017. If there are any subsequent adjustments to the actual remuneration amounts after the annual shareholders' meeting, the adjustment will be regarded as changes in accounting estimates and will be reflected in profit or loss in the following year. If remuneration to employees is resolved to be distributed in stock, the number of shares is determined by dividing the amount of remuneration by the closing market price of the shares on the day preceding the board of directors' meeting.

The remunerations to employees in cash amounted to \$111,567 and \$94,738, and the remunerations to directors in cash amounted to \$12,286 and \$10,526 for the years ended December 31, 2017 and 2016, respectively. The actual remunerations to directors in cash amounted to \$12,176 for the years ended December 31, 2017, and the difference is an estimate of the difference. And the actual remunerations to directors in cash amounted to \$10,416 for the years ended December 31, 2016, and the difference is recognized as accounts adjustments for the years ended December 31, 2017. The information is available on the Market Observation Post System website.

(16) Revenue from Contracts with Customers

A. Segmentation of revenue

Please refer to note 14 for the Segment Information.

B. Contract balance

Please refer to note 6(5) for the amount of accounts receivables and impairment loss.

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

(17) Non-operating income and expenses

The details of other gains and losses were as follows:

	For the year ended December 31,	
	2018	2017
Gain on disposal of investment accounted for using equity method	\$ -	17,215
Foreign exchange gains (losses), net	(7,530)	338
Others	23,001	16,403
	<u>\$ 15,471</u>	<u>33,956</u>

(18) Financial instruments

A. Credit risk

(a) Exposure to credit risk

Maximum credit risk exposure is mainly from the carrying amount of financial assets recognized in the balance sheet. The amounts of maximum credit risk exposure as of December 31, 2018 and 2017, were \$3,912,124 and \$3,564,805 respectively.

Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factors were consolidated cash and cash equivalents, time deposits over 3 months, and customers' accounts receivables.

The cash and time deposits are deposited in different financial institutions. The Group manages the credit risk exposure with each of these financial institutions and believes that cash do not have a significant credit risk concentration

The main sales of the Group are domestic and foreign companies with good reputation, in addition to the credit line according to the operation procedures, and continue to understand the credit status of customers. As of December 31, 2018 and 2017, customers (including related parties) whose notes and accounts receivables that accounted for more than 10% have amounted to \$404,381 and \$447,529, respectively. The Group have concentration of credit risk arising from sales transactions. The Group have estimated the recoverable amount and recognized allowance for doubtful accounts, the management expected that no significant impairment loss will occurred.

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

(b)Credit risk of accounts receivables and debt securities

Please refer to note 6(5) for the information of the credit risk exposure of note and trade receivables.

Other financial assets at amortized cost include time deposits (more than 3 months) and restricted cash in banks. Please refer to note 6(7) for the information of the details and loss allowance.

Please refer to note 4(7) for the information of the above financial assets are considered to have low risk, and thus, the impairment provision recognized during the period was limited to 12 months expected losses. Regarding how the financial instruments are considered to have low credit risk.

B. Liquidity risk

The following are the contractual maturities of financial liabilities:

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 1year</u>	<u>More than 1 years</u>
December 31, 2018				
Non-derivative financial liabilities				
Notes and accounts payable (including related parties)	\$ 614,409	614,409	614,409	-
Guarantee deposit received	<u>8,706</u>	<u>8,706</u>	<u>-</u>	<u>8,706</u>
	<u>\$ 623,115</u>	<u>623,115</u>	<u>614,409</u>	<u>8,706</u>
December 31, 2017				
Non-derivative financial liabilities				
Notes and accounts payable (including related parties)	\$ 600,932	600,932	600,932	-
Guarantee deposit received	<u>8,710</u>	<u>8,710</u>	<u>-</u>	<u>8,710</u>
	<u>\$ 609,642</u>	<u>609,642</u>	<u>600,932</u>	<u>8,710</u>

The Group does not expect that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

C. Market risk

Currency risk

i. Exposure to currency risk

The Group's financial assets and liabilities exposed to exchange rate risk were as follows:

		December 31, 2018			December 31, 2017		
		Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD
<u>Financial assets</u>							
<u>Monetary items</u>							
USD	\$	18,380	30.665	563,619	9,269	29.71	275,385
RMB		98,174	4.4459	436,473	112,470	4.5394	510,544
<u>Non-monetary items</u>							
USD	\$	11,977	30.665	367,289	11,372	29.71	337,870
<u>Financial liabilities</u>							
<u>Monetary items</u>							
USD	\$	9,311	30.665	285,533	8,081	29.71	240,082
RMB		13,886	4.4459	61,737	14,933	4.5394	67,786

ii. Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable, other receivables, and accounts payable that are denominated in foreign currency. A fluctuation in the NTD/RMB and USD exchange rate on the reporting date, with other factors remaining constant, would have increased or decreased the net income amounted to \$5,223 and \$3,968 for the years ended December 31, 2018 and 2017, respectively.

iii. Foreign exchange gains (losses) on monetary items

Due to the variety of the functional currencies of the Group's entities, the Group's foreign exchange gains (losses) on monetary items amounted to (\$7530) and \$338 for the years ended December 31, 2018 and 2017, respectively.

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

D. Fair value of financial instruments

(a) Categories of financial instruments and fair value

The fair value of financial assets and liabilities at fair value through profit or loss is measured on a recurring basis. The Group's carrying amount and the fair value of financial assets and liabilities (including information for fair value hierarchy, but excluding financial instruments whose fair values approximate the carrying amounts and equity investments which cannot be estimated reliably in an active market) were as follows:

		December 31, 2018			
		Fair value			
	Carrying amount	Level1	Level2	Level3	Total
Financial assets measured at fair value through profit or loss	\$ 486,555	486,555	-	-	486,555
Financial assets measured at fair value through other comprehensive income	265,161	-	-	265,161	265,161
Financial assets measured at amortized cost					
Cash and cash equivalents	1,517,632	-	-	-	-
Net notes and accounts receivable (including related parties)	847,393	-	-	-	-
Other financial assets – current	784,175	-	-	-	-
Refundable deposits (recorded in other non-current assets)	11,208	-	-	-	-
	<u>\$ 3,912,124</u>	<u>486,555</u>	<u>-</u>	<u>265,161</u>	<u>751,716</u>
Financial liabilities measured at amortized cost					
Notes and accounts payable (including related parties)	\$ 614,409	-	-	-	-
Guarantee deposit received	8,706	-	-	-	-
	<u>\$ 623,115</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

	December 31, 2017				
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets measured at fair value through profit or loss					
Non-derivative financial assets available-for-sale	\$ 582,902	582,902	-	-	582,902
Financial assets carried at cost	259,446	-	-	-	-
Loans and receivables					
Cash and cash equivalents	1,391,728	-	-	-	-
Notes and accounts receivable (including related parties), net	870,571	-	-	-	-
Other financial assets – current	711,632	-	-	-	-
Refundable deposits (recorded in other non-current assets)	7,972	-	-	-	-
	<u>\$ 3,824,251</u>	<u>582,902</u>	<u>-</u>	<u>-</u>	<u>582,902</u>
Financial liabilities measured at amortized cost					
Notes and accounts payable (including related parties), net	\$ 600,932	-	-	-	-
Guarantee deposit received	8,710	-	-	-	-
	<u>\$ 609,642</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

(b) Valuation techniques for financial instruments that are measured at fair value

- The Group's valuation techniques and assumptions used for financial instruments of financial assets with standard terms and conditions and traded in active markets are determined with reference to quoted market prices.
- The Group's financial assets at the equity investment without an active market were as follows:

Unquoted equity instruments : The Group invests companies. Asset value method is used to reflect corporate value by evaluating the aggregate value of individual assets and individual liabilities from the target of evaluation.

Unquoted equity instruments : For other investment the market price is established as the fair value if the quoted prices in active markets are available. However, if quoted prices in active markets are not available, the estimated valuation or prices used by competitors are adopted.

(c) There was no transfer of fair value level as of December 31, 2018 and 2017.

(d) Quantified information on significant unobservable inputs (Level 3) used in fair value measurement

The Group's financial instruments that use Level 3 inputs to measure fair value include financial assets at FVOCI—equity investments.

The Group classified the equity investments without an active market as recurring level 3 fair values in the fair value hierarchy due to the use of significant unobservable inputs. The significant unobservable inputs of the equity investments without an active market are independent; therefore, there is no correlation between them.

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

Quantified information of significant unobservable inputs was as follows:

Item	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Financial assets at FVOCI -equity investments without an active market	Market approach (Compared to the price-equity ratio of market practice among listed companies)	<ul style="list-style-type: none"> • Price per book value multiplier (2018.12.31:2.00) • Discount for lack of marketability (2018.12.31 : 20%) 	<ul style="list-style-type: none"> • The higher the price-equity ratio, the higher the fair value. • The higher the discount for lack of marketability, The lower the fair value.
Financial assets at FVOCI -equity investments without an active market	Net Asset Value Method	<ul style="list-style-type: none"> • Net Asset Value • Discount for lack of marketability (2018.12.31:10%) 	<ul style="list-style-type: none"> • Not applicable • The higher the discount for lack of marketability, The lower the fair value.

(e) Reconciliation for fair value measurements categorized within Level 3

	Financial assets measured at FVOCI — equity instruments
Balance at beginning of the period	\$ -
Adjustments on initial application of IFRS 9	326,736
Net gains or loss	
Net gains included in other comprehensive income	(58,603)
Disposals e	(2,972)
Balance at end of the period	<u>\$ 265,161</u>

Net gains or loss that were included in unrealized gains and losses from financial assets at fair value through other comprehensive income for the years ended December 31, 2018

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

(19) Financial risk management

A. Overview

The Group is exposed to the following risks due to usage of financial instruments:

- (a) Credit risk
- (b) Liquidity risk
- (c) Market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures can be referred to note 6 (18).

B. Risk management framework

The Board of Directors has overall responsibility for developing and monitoring of the Group's risk management policies.

The Group's risk management policies are established to identify and analyze the risks 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 its 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 Board of Directors oversees how management monitors compliance with the Group's 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 Audit Committee 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.

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

C. 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 cash and cash equivalents, and accounts receivables.

Please refer to Note 6 (18) for the credit risk analyses of cash and cash equivalents, and accounts receivables. As of December 31, 2018 and 2017, no guarantees were outstanding.

D. 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. The Group's approach to managing liquidity is to ensure, as far as possible, that it always has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs. The Group also monitors the level of expected cash flows on long-term and short-term trades. Group treasury invests surplus cash in time deposits with appropriate maturities or other short-term investments to ensure sufficient liquidity and meet its liabilities when due. As of December 31, 2018, the Group's unused credit line were amounted to \$153,575, which ensures compliance with the terms of loan agreements and cope with its operations and avoid liquidity risk.

E. Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. Market risk comprises currency risk, interest risk, and other price risk (such as risk related to equity instruments). The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Holtek Semiconductor and Subsidiaries

Notes to Consolidated Financial Statements

The group controls the risks arising from fluctuation of market rate and price change of beneficiary certificates, all significant transactions are approved by the Board of Directors. The relevant financial operations are monitored by internal audit department.

The management regulations are as follows:

- (1) The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of the Group's entities, primarily the US Dollar (USD), and the Chinese Yuan (RMB).

When a short-term imbalance of financial assets and liabilities in foreign currency occurred, the Group can maintain the net exposure risk at an acceptable level by purchasing or selling foreign currency at current rate.

- (2) Every significant investment of the Group's portfolio is managed individually, and all the decisions on transactions are approved by the Board of Directors.

(20) Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios to support its business and maximize owner value.

The strategy of capital structure management is based on the Group's industry scope, the future cost of industry, and products development blueprint. The Board of Directors settled the strategy to determine an applicable market share, and decide the operating capitals to make an overall plan for the various assets scales that the Group can develop continuously. Finally, the Board of Directors will estimate possible marginal utility, operating profit margin, and cash flows based on the competitiveness of the Group's products, and will consider different risk factors like business cycle fluctuation, product life cycle, to determine the appropriate capital structure of the Group.

The Board of Directors monitors the capital structure regularly, and considers the potential risk the Group may be involved in various capital structures.

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

There were no changes in the Group's approach to capital management during the year ended December 31, 2018.

The Group's debt-to-adjusted-capital ratio at the reporting date was as follows:

	December 31,	
	2018	2017
Total liabilities	\$ 1,331,401	1,265,424
Total equity	\$ 4,224,099	4,098,846
Debt-to-adjusted-capital ratio	31.52%	30.87%

7. Related-party Transactions

(1) Names and relationship with related parties

The followings are the related parties which had transaction with the Group during the periods covered in the consolidated financial statements.

Name of related parties	Relationship with the Group
CROWN RICH	An associate of the Group
FINE CHIP	An associate of the Group
FORIC	An associate of the Group
JXY	An associate of the Group
NEW WAVE	An associate of the Group
NEWTEK	An associate of the Group
QUANDING	An associate of the Group
SANTEK	An associate of the Group
TRUETEK	An associate of the Group
BESTWAY	An associate of the Group
SIGNAL	An associate of the Group
TECH WAVE	An associate of the Group
ETEK	An associate of the Group
GOSAN	An associate of the Group
EST	An associate of the Group

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

(2) Significant related-party transactions

A. Sales

The amounts of significant sales by the Group to related parties were as follows:

	For the year ended December 31,	
	2018	2017
SIGNAL	\$ 635,592	571,681
CROWN RICH	544,069	465,727
Others	2,409,950	2,328,419
	\$ 3,589,611	3,365,827

The Group will determine selling price by product type specification, and offer different discount based on the quantity. The credit terms for sales transactions for related parties ranged from 60 to 90 days. While the credit terms for routine sales transactions, which are usually decided upon the experiences and the result form credit evaluation, can be varied from advance payment, T/T on demand, or 30 to 60 days on open account.

As for the years ended December 31, 2018 and 2017, the Group recognized unrealized gross profits of sales to associates amounting to \$101,540 and \$88,916 respectively.

The receivables from related parties were as follows:

	December 31,	
	2018	2017
SIGNAL	\$ 123,653	121,816
CROWN RICH	107,074	110,054
NEW WAVE	86,922	114,810
TRUETEK	86,732	59,223
Others	345,408	349,504
	\$ 749,789	755,407

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

B. Purchases

The amounts of significant purchases by the Group from related parties were as follows:

	For the year ended December 31,	
	2018	2017
Other related parties	\$ -	584

The terms and prices of purchase transactions with related parties were not significantly different from those offered by other vendors.

The Group has paid to the related parties for consumables, miscellaneous purchase, and sales service of integrated circuit as follows:

	For the year ended December 31,	
	2018	2017
Associates	\$ 13	491

(3) Transactions with key management personnel

Key management personnel compensation comprised:

	For the year ended December 31,	
	2018	2017
Short-term employee benefits	\$ 34,429	28,622
Post-employment benefits	432	432
	\$ 34,861	29,054

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

8. Pledged Assets

Assets	Purpose of Pledged	December 31,	
		2018	2017
Time deposits (recorded in other financial assets — current)	Guarantee deposits of customs duty	<u><u>\$ 3,712</u></u>	<u><u>3,820</u></u>

9. Significant Commitments and Contingencies

The Group has signed the contract of technical authorization with ARM Ltd. When the Group sells products which apply the promised technique, it has to pay the royalty with certain amount according to the contract.

10. Losses Due to Major Disasters: None.

11. Significant Subsequent Events: None.

12. Other

The following is the summary statement of current-period employee benefits, depreciation, and amortization expenses by function:

By item	By function			For the year ended December 31,			For the year ended December 31,		
	2018			2017					
	Classified as operating costs	Classified as operating expenses	Total	Classified as operating costs	Classified as operating expenses	Total			
Employee benefits									
Salaries	30,468	762,573	793,041	31,114	703,743	734,857			
Labor and health insurance	2,227	39,552	41,779	2,384	36,625	39,009			
Pensions	1,595	43,669	45,264	1,475	39,159	40,634			
Others	1,430	20,265	21,695	1,398	19,427	20,825			
Depreciation	2,753	54,845	57,598	4,894	52,125	57,019			
Amortization	-	55,025	55,025	-	69,914	69,914			

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

13. Other disclosures

(1) 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 Group:

- 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				Highest percentage of ownership (%) during the year	Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value		
The Company	FSITC Taiwan Money Market	-	Financial assets measured at fair value through profit or loss — current	13,545	206,914	-	206,914	-	
The Company	UPAMC James Bond Money Market Fund	-	Financial assets measured at fair value through profit or loss — current	16,550	276,151	-	276,151	-	
The Company	Yuanta De-Bao Money Market Fund	-	Financial assets measured at fair value through profit or loss — current	291	3,490	-	3,490	-	
Holtek Semiconductor Holding (BVI) Ltd.	Unitech Capital Inc.	-	Equity-investments measured at fair value through other comprehensive income-non current	2,500	60,848	5.00%	-	5.00%	
Holtek Investment Co., Ltd	Shieh Yong Investment Co., Ltd.	-	Equity-investments measured at fair value through other comprehensive income-non current	23,124	161,110	3.03%	-	3.03%	
Holtek Investment Co., Ltd	Gingy Technology Co.	-	Equity-investments measured at fair value through other comprehensive income-non current	3,330	43,203	13.59%	-	16.38%	

Holtek Semiconductor and Subsidiaries

Notes to Consolidated Financial Statements

iv. Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock:

Name of company	Category and name of security	Account name	Name of counter-party	Relationship with the company	Beginning Balance		Purchases		Sales				Ending Balance	
					Shares	Amount	Shares	Amount	Shares	Price	Cost	Gain (loss) on disposal	Shares	Amount
The Company	UPAMC James Bond Money Market Fund	Financial assets measured at fair value through profit or loss — current	UPAMC	-	6,342	105,208	36,738	611,500	26,530	441,890	441,232	658	16,550	275,476 (Note)

Note : The ending balance is the acquisition cost. Please refer to iii for the carrying amount evaluated by market price.

v. Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None.

vi. Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None.

vii. Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:

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	Holtek BVI	Subsidiary of the Company	Sales	(784,925)	(18) %	Open account 90 days	No significant difference	No significant difference	220,903	29%	Note
Holtek BVI	The Company	Parent company of Holtek BVI	Purchases	784,925	100 %	Open account 90 days	No significant difference	No significant difference	(220,903)	(99)%	Note
The Company	Signal	Investee of the Company's subsidiary evaluated under the equity method	Sales	(512,531)	(12) %	Open account 60 days	No significant difference	No significant difference	96,514	13%	
Signal	The Company	Investee that evaluate Signal under equity method	Purchases	512,531	57 %	Open account 60 days	No significant difference	No significant difference	(96,514)	(66)%	
The Company	Best Solution Technology Inc.	Subsidiary of the Company	Sales	(455,152)	(10) %	Open account 60 days	No significant difference	No significant difference	93,263	12%	Note
Best Solution Technology Inc.	The Company	Parent company of Best Solution Technology Inc.	Purchases	455,152	100 %	Open account 60 days	No significant difference	No significant difference	(93,263)	(100)%	Note
The Company	ForIC	Investee of the Company's subsidiary evaluated under the equity method	Sales	(127,791)	(3) %	Open account 60 days	No significant difference	No significant difference	16,519	2%	
ForIC	The Company	Investee that evaluate ForIC	Purchases	127,791	66 %	Open account 60 days	No significant difference	No significant difference	(16,519)	(36)%	

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

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)	
		under equity method									
The Company	Newtek	Investee of the Company's subsidiary evaluated under the equity method	Sales	(246,166)	(6) %	Open account 60 days	No significant difference	No significant difference	32,506	4%	
Newtek	The Company	Investee that evaluate Newtek under equity method	Purchases	246,166	59 %	Open account 60 days	No significant difference	No significant difference	(32,506)	(40)%	
The Company	Crown Rich	Investee of the Company's subsidiary evaluated under the equity method	Sales	(233,591)	(5) %	Open account 60 days	No significant difference	No significant difference	32,052	4%	
Crown Rich	The Company	Investee that evaluate Crown Rich under equity method	Purchases	233,591	36 %	Open account 60 days	No significant difference	No significant difference	(32,052)	(22)%	
The Company	EST	Investee of the Company's subsidiary evaluated under the equity method	Sales	(148,581)	(3) %	Open account 60 days	No significant difference	No significant difference	23,260	3%	
EST	The Company	Investee that evaluate EST under equity method	Purchases	148,581	7 %	Open account 60 days	No significant difference	No significant difference	(23,260)	(12)%	
The Company	New Wave	Investee of the Company's subsidiary evaluated under the equity method	Sales	(228,132)	(5) %	Open account 60 days	No significant difference	No significant difference	31,865	4%	
New Wave	The Company	Investee that evaluate New Wave under equity method	Purchases	228,132	51 %	Open account 60 days	No significant difference	No significant difference	(31,865)	(39)%	
The Company	Truetek	Investee of the Company's subsidiary evaluated under the equity method	Sales	(153,335)	(4) %	Open account 60 days	No significant difference	No significant difference	23,984	3%	
Truetek	The Company	Investee that evaluate Truetek under equity method	Purchases	153,335	41 %	Open account 60 days	No significant difference	No significant difference	(23,984)	(27)%	
The Company	Santek	Investee of the Company's subsidiary evaluated under the equity method	Sales	(155,310)	(4) %	Open account 60 days	No significant difference	No significant difference	47,820	6%	
Santek	The Company	Investee that evaluate Santek under equity method	Purchases	155,310	78 %	Open account 60 days	No significant difference	No significant difference	(47,820)	(78)%	

Note : The relevant transactions and ending balance are eliminated in comprehensive financial reports.

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

viii. Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of capital stock:

(In Thousands of New Taiwan Dollars)

Name of company	Related party	Nature of relationship	Ending balance	Turnover days	Overdue		Amounts received in subsequent period	Allowance for bad debts
					Amount	Action taken		
The Company	Holtek BVI	Subsidiary	220,903 Note2	3.59	-	Collection on demand	37,715 (Note1)	-

Note1 : The amount is collected by January 18, 2019.

Note2 : The relevant transactions and ending balance are eliminated in comprehensive financial reports.

ix. Trading in derivative instruments: None.

x. Business relationships and significant intercompany transactions:

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	The Company	HOLTEK BVI	Parent company to subsidiary	Sales	784,925	Open account 90 days	16.14%
0	The Company	HOLTEK BVI	Parent company to subsidiary	Accounts receivable	220,903	-	3.86%
0	The Company	Best Solution Technology Inc.	Parent company to subsidiary	Sales	455,152	Open account 60 days	9.36%
0	The Company	Best Solution Technology Inc.	Parent company to subsidiary	Accounts receivable	93,263	-	1.68%
0	The Company	Best Health Electronics Corporation	Parent company to subsidiary	Sales	29,223	Open account 60 days	0.60%
0	The Company	BestComm RF Electronics Inc.	Parent company to subsidiary	Sales	27,384	Open account 60 days	0.56%

Note : The transactions with amount that account for more than 0.5% of the comprehensive earnings or net assets are disclosed.

Holtek Semiconductor and Subsidiaries

Notes to Consolidated Financial Statements

(2) Information on investees:

The following is the information on investees for the year 2018 (excluding information on investees in Mainland China):

Investor Company	Investee Company	Location	Main Businesses and Products	Original investment amount		Balance as of December 31, 2018			Highest percentage of ownership during the year	Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2018	December 31, 2017	Shares	Percentage of ownership	Carrying value				
The Company	Holtek Semiconductor Holding (BVI) Ltd.	B.V.I.	Overseas investment activities	475,831	475,831	15,253	100.00%	524,475	100.00%	43,268	43,268 Note2	The Company's Subsidiary
The Company	Kingtek Semiconductor Holding (BVI) Ltd.	B.V.I.	Overseas investment activities	69,542	69,542	2,000	100.00%	120,725	100.00%	1,632	1,632 Note2	The Company's Subsidiary
The Company	Sigmos Holdings Ltd.	B.V.I.	Overseas investment activities	6,898	6,898	200	100.00%	22,811	100.00%	231	231 Note2	The Company's Subsidiary
Sigmos Holdings Ltd.	Holtek Semiconductor (USA) Inc.	California, USA	Sales of integrated circuits and technical services	6,898	6,898	2,000	100.00%	22,811	100.00%	231	Note1、2	The Company's second-tier subsidiary
The Company	MCU Holdings Ltd.	B.V.I.	Overseas investment activities	16,333	16,333	500	100.00%	650,461	100.00%	106,251	106,251 Note2	The Company's Subsidiary
MCU Holdings Ltd.	ForIC Electronics Holding Ltd.	B.V.I.	Sales of integrated circuits and technical services	9,733	9,733	300	40.00%	23,302	40.00%	3,025	Note1	The Subsidiary's investee company by equity method
ForIC Electronics Holding Ltd.	E-Micro Technology Holding Ltd. (BVI)	B.V.I.	Sales of integrated circuits and technical services	9,473	9,473	300	100.00%	10,084	100.00%	1,641	Note1	The Subsidiary's investee company by equity method invest subsidiary
MCU Holdings Ltd.	Truetek Technology Ltd.	B.V.I.	Sales of integrated circuits and technical services	16,306	16,306	920	40.00%	49,594	40.00%	26,880	Note1	The Subsidiary's investee company by equity method
MCU Holdings Ltd.	Quanding Technology Holding Ltd.	B.V.I.	Sales of integrated circuits and technical services	1,868	1,868	60	40.00%	18,746	40.00%	14,777	Note1	The Subsidiary's investee company by equity method
MCU Holdings Ltd.	Santek Holdings Ltd.	B.V.I.	Sales of integrated circuits and technical services	3,758	3,758	180	40.00%	22,651	40.00%	23,354	Note1	The Subsidiary's investee company by equity method
MCU Holdings Ltd.	Bestway Electronic Inc.	B.V.I.	Sales of integrated circuits and technical services	3,470	3,470	800	40.00%	22,696	40.00%	11,249	Note1	The Subsidiary's investee company by equity method

Holtek Semiconductor and Subsidiaries

Notes to Consolidated Financial Statements

Investor Company	Investee Company	Location	Main Businesses and Products	Original investment amount		Balance as of December 31, 2018			Highest percentage of ownership during the year	Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2018	December 31, 2017	Shares	Percentage of ownership	Carrying value				
MCU Holdings Ltd.	New Wave Electronics Holding Ltd.	B.V.I.	Sales of integrated circuits and technical services	24,784	24,784	800	40.00%	67,736	40.00%	36,491	Note1	The Subsidiary's investee company by equity method
MCU Holdings Ltd.	Newtek Electronics Ltd.	B.V.I.	Sales of integrated circuits and technical services	8,105	8,105	1,501	40.61%	68,739	40.61%	32,072	Note1	The Subsidiary's investee company by equity method
MCU Holdings Ltd.	Crown Rich Technology Holding Ltd.	B.V.I.	Sales of integrated circuits and technical services	2,641	2,641	80	40.00%	61,590	40.00%	49,270	Note1	The Subsidiary's investee company by equity method
MCU Holdings Ltd.	Fine Chip Electronics Inc.	B.V.I.	Sales of integrated circuits and technical services	7,039	7,039	1	40.00%	2,371	40.00%	(2,960)	Note1	The Subsidiary's investee company by equity method
MCU Holdings Ltd.	Anchip Technology Corporation	B.V.I.	Sales of integrated circuits and technical services	2,937	2,937	1	60.00%	2,522	60.00%	1,438	Note1,2	The Company's second-tier subsidiary
MCU Holdings Ltd.	Tech Wave Ltd.	Hong Kong	Sales of integrated circuits and technical services	9,907	9,907	2,400	40.00%	18,452	40.00%	4,072	Note1	The Subsidiary's investee company by equity method
MCU Holdings Ltd.	ETEK technology company Ltd.	Hong Kong	Sales of integrated circuits and technical services	5,427	5,427	1,275	33.33%	8,144	33.33%	1,015	Note1	The Subsidiary's investee company by equity method
MCU Holdings Ltd.	JXY Electronics Corporation	B.V.I.	Sales of integrated circuits and technical services	3,664	3,664	1	40.00%	3,268	40.00%	934	Note1	The Subsidiary's investee company by equity method
MCU Holdings Ltd.	Best Health Electronics Corporation	B.V.I.	Sales of integrated circuits and technical services	20,965	20,965	5	80.00%	22,669	80.00%	1,755	Note1,2	The Company's second-tier subsidiary
MCU Holdings Ltd.	Best Power Electronics Corporation	B.V.I.	Sales of integrated circuits and technical services	8,844	-	2	100.00%	8,940	100.00%	(48)	Note 1 & 2	The Company's second-tier subsidiary
The Company	Holtek Semiconductor (India) Private Limited	INDIA	Sales of integrated circuits and technical services	3	-	6	0.10%	2	0.10%	(1,186)	(1) Note 2	The Company's second-tier subsidiary
The Company	Holtek Investment Co., Ltd.	Hsinchu City	Domestic investment activities	429,826	400,000	42,983	100.00%	490,773	100.00%	19,229	19,229 Note2	The Company's Subsidiary
Holtek Investment Co., Ltd.	Signal Electronic Co., Ltd.	Taipei City	Sales of integrated circuits and technical services	95,940	89,140	7,880	40.00%	116,854	40.00%	26,731	Note1	The Subsidiary's investee company by equity method

Holtek Semiconductor and Subsidiaries

Notes to Consolidated Financial Statements

Investor Company	Investee Company	Location	Main Businesses and Products	Original investment amount		Balance as of December 31, 2018			Highest percentage of ownership during the year	Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2018	December 31, 2017	Shares	Percentage of ownership	Carrying value				
Signal Electronic Co. Ltd.	A-ONE Wireless Technology Corp.	B.V.I.	Sales of integrated circuits and technical services	59,204	59,204	2,000	100.00%	90,082	100.00%	10,674	Note1	The Subsidiary's investee company by equity method invest subsidiary
Signal Electronic Co. Ltd.	Innotek Electronics Inc.	B.V.I.	Sales of integrated circuits and technical services	43,810	43,810	800	100.00%	41,289	100.00%	8,737	Note1	The Subsidiary's investee company by equity method invest subsidiary
Signal Electronic Co. Ltd.	Best Solution Technology Inc.	Taipei City	Sales of integrated circuits and technical services	7,375	7,375	738	36.88%	14,326	36.88%	12,044	Note1	The Company's second-tier subsidiary
Holtek Investment Co., Ltd.	EST Technology Integration Corp.	New Taipei City	Sales of integrated circuits and technical services	37,500	37,500	5,641	22.39%	69,322	22.39%	24,750	Note1	The Subsidiary's investee company by equity method
Holtek Investment Co., Ltd.	Gosan Technology Co., Ltd	New Taipei City	Sales of integrated circuits and technical services	2,350	2,350	235	39.17%	2,821	39.17%	1,555	Note1	The Subsidiary's investee company by equity method
Holtek Investment Co., Ltd.	Best Solution Technology Inc.	Taipei City	Sales of integrated circuits and technical services	8,000	8,000	800	40.00%	15,540	40.00%	12,044	Note1,2	The Company's second-tier subsidiary
Best Solution Technology Inc.	Best Solution Electronics Inc.	B.V.I.	Sales of integrated circuits and technical services	6,140	6,140	200	100.00%	40,543	100.00%	15,636	Note1,2	The Company's third-tier subsidiary
Holtek Investment Co., Ltd.	TANGENT Microelectromechanics Corp.	Hsinchu City	Electronic component manufacturing, electronic materials wholesale and retail, telecommunication equipment wholesale and retail, intellectual property rights, information service and international trade	10,002	10,002	380	20.00%	-	20.00%	611	Note1	The Subsidiary's investee company by equity method
Holtek Investment Co., Ltd.	BestComm RF Electronics Inc.	Hsinchu City	Sales of integrated circuits and technical services	40,000	40,000	4,000	100.00%	21,662	100.00%	(3,356)	Note1,2	The Company's second-tier subsidiary
BestComm RF Electronics Inc.	BestComm RF Electronics (BVI) Inc.	B.V.I.	Sales of integrated circuits and technical services	14,054	14,054	30	100.00%	10,788	100.00%	434	Note1,2	The Company's third-tier subsidiary
Holtek Investment Co., Ltd.	Best Modules Corp.	Hsinchu City	Electronic component manufacturing, electronic materials wholesale and retail, retail trade not in stores or stalls, and international	10,000	10,000	1,000	100.00%	9,895	100.00%	(41)	Note1,2	The Company's second-tier subsidiary

Holtek Semiconductor and Subsidiaries

Notes to Consolidated Financial Statements

Investor Company	Investee Company	Location	Main Businesses and Products	Original investment amount		Balance as of December 31, 2018			Highest percentage of ownership during the year	Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2018	December 31, 2017	Shares	Percentage of ownership	Carrying value				
			trade									
Holtek Investment Co., Ltd.	Holtek Semiconductor (India) Private Limited	INDIA	Sales of integrated circuits and technical services	2,945	-	6,479	99.90%	1,654	99.90%	(1,186)	Note1,2	The Company's second-tier subsidiary

Note1 : The share of profits/losses of the investee company is already included in the share of profits/losses of the investor company.

Note2 : The relevant transactions and ending balance are eliminated in comprehensive financial reports.

(3) Information on investment in mainland China:

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

Name of investee	Main businesses and products	Total amount of capital surplus	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 during the year	Gains (losses) on investments (Note 5)	Book value	Accumulated remittance of earnings in current period
					Out-flow	Inflow							
Holtek Semiconductor (Xiamen) Inc	Sales of integrated circuits and technical services	113,551	(Note1)	101,027	-	-	101,027	531	100%	100%	531	113,289	-
Holtek Semiconductor (China) Inc.	Sales of integrated circuits and technical services	292,423	(Note1)	272,221	-	-	272,221	35,312	100%	100%	35,312	326,434	-
Bestway Electronics (Shenzhen) Inc.	Sales of integrated circuits and technical services	6,769	(Note1)	3,383	-	-	3,383	3,483	40%	40%	1,393	17,940	-
Santek Electronics (Xiamen) Ltd.	Sales of integrated circuits and technical services	6,398	(Note1)	2,506	-	-	2,506	1,171	40%	40%	468	19,773	-
New Wave Electronics (Shenzhen) Ltd.	Sales of integrated circuits and technical services	9,287	(Note1)	3,928	-	-	3,928	7,893	40%	40%	3,157	22,146	-
Forle Electronics (Beijing) Ltd.	Sales of integrated circuits and technical services	19,361	(Note1)	3,601	-	-	3,601	(6,091)	40%	40%	(2,436)	16,106	-
E-Micro Technology (Qingdao) Ltd.	Sales of integrated circuits and technical services	6,315	(Note1)	2,634	-	-	2,634	633	40%	40%	253	6,647	-
Newtek Electronics (Shenzhen) Ltd	Sales of integrated circuits and technical services	6,699	(Note1)	2,647	-	-	2,647	6,179	40.61%	40.61%	2,509	29,383	-
Truetek Technology (Shanghai) Ltd.	Sales of integrated circuits and technical services	30,293	(Note1)	3,911	-	-	3,911	5,786	40%	40%	2,314	48,358	-
Crown Rich Technology (Shenzhen) Ltd.	Sales of integrated circuits and technical services	4,952	(Note1)	1,964	-	-	1,964	27,034	40%	40%	10,814	60,116	-

Holtek Semiconductor and Subsidiaries

Notes to Consolidated Financial Statements

Name of investee	Main businesses and products	Total amount of capital surplus	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 during the year	Gains (losses) on investments (Note 5)	Book value	Accumulated remittance of earnings in current period
					Out-flow	Inflow							
Quanding Technology (Suzhou) Ltd.	Sales of integrated circuits and technical services	3,736	(Note1)	1,600	-	-	1,600	2,236	40%	40%	894	18,345	-
Holtek Semiconductor (Suzhou) Inc.	Sales of integrated circuits and technical services	69,712	(Note1)	69,712	-	-	69,712	1,630	100%	100%	1,630	120,685	-
Fine Chip Electronics (Shanghai) Inc.	Sales of integrated circuits and technical services	7,541	(Note1)	-	-	-	-	(1,197)	40%	40%	(479)	2,836	-
Anchip Technology (Shenzhen) Corporation	Sales of integrated circuits and technical services	1,521	(Note1)	-	-	-	-	(647)	60%	60%	(388)	641	-
JXY Electronics (Shenzhen) Corporation	Sales of integrated circuits and technical services	6,843	(Note1)	-	-	-	-	(2,287)	40%	40%	(915)	4,407	-
Best Health Electronics (Dongguan) Corporation	Sales of integrated circuits and technical services	23,057	(Note1)	-	-	-	-	(5,930)	80%	80%	(4,744)	15,110	-
BestComm RF Electronics (Dongguan) Inc.	Sales of integrated circuits and technical services	9,214	(Note1)	-	9,392	-	9,392	(2,574)	100%	100%	(2,574)	6,351	-

ii. Limit of investments in Mainland China:

Accumulated Investment in Mainland China as of December 31, 2018 (Note2)	Investment Amounts Authorized by Investment Commission, MOEA (Note3)	Upper Limit on Investment
480,481 (US\$15,425 in thousands)	547,438 (US\$17,853 in thousands)	2,519,502 (Note4)

Note1 : Investment in companies in Mainland China through the existing companies in the third regions.

Note2 : Accumulated investments in Mainland China are calculated in NTD using exchange rate on the remitting date. Including Bestcomm accumulated remittances from Taiwan for \$9,392 (US\$314 in thousands)

Note3 : Investment amounts authorized by Investment Commission, MOEA are calculated in NTD using exchange rate on the reporting date. Including accumulated remittances from Taiwan for \$461,620 (US\$15,054 in thousands) ; and from the third regions for \$76,205 (US\$2,485 in thousands) and Bestcomm accumulated remittances from Taiwan for \$9,613 (US\$314 in thousands).

Note4: According to "Principle of investment or Technical Cooperation in Mainland China", the Company's accumulated investments in Mainland China do not exceed the maximum limit of investment. Net value \$4,199,170 x 60% = \$2,519,502; and Bestcomm net value \$21,662 x 60% = \$12,997.

Note5 : The financial statements of the Company were audited by the auditors.

iii. Significant transactions

The significant intercompany transactions with the subsidiaries in Mainland China, which were eliminated in the preparation of consolidated financial statements, are disclosed in the Company please refer to *(1) Information on significant transactions x. Business relationships and significant intercompany transactions* for further information.

14. Segment Information

(1) General and segment information

The Group operates predominantly in single industry segment which includes the research and development, manufacture, and sales of integrated circuits. The segment financial information is consistent with the consolidated financial statements. For sales to unconsolidated entities and income before income tax, please see the consolidated statements of comprehensive income. For assets, please see the consolidated balance sheets.

(2) Products and services information

Revenues of the Group from external customers:

	For the year ended December 31,			
	2018		2017	
	Amount	% of net sales	Amount	% of net sales
Sales of integrated circuits	\$ 4,853,674	100	4,607,916	100
Design income	9,133	-	7,001	-
	<u>\$ 4,862,807</u>	<u>100</u>	<u>4,614,917</u>	<u>100</u>

(3) Geographic information

Segment revenues are classified based on the geographical location of customers, and segment assets are classified based on the geographical location of the assets.

	For the year ended December 31,			
	2018		2017	
	Amount	% of net sales	Amount	% of net sales
Revenues from external customers:				
China	\$ 3,716,948	76	3,331,746	72
Taiwan	484,264	10	557,865	12
Other countries	661,595	14	725,306	16
	<u>\$ 4,862,807</u>	<u>100</u>	<u>4,614,917</u>	<u>100</u>

		December 31,			
		2018		2017	
		Amount	% of total assets	Amount	% of total assets
Non-current assets					
Taiwan	\$	182,991	3	188,647	4
China		265,648	5	268,385	5
Other countries		868	-	106	-
	\$	<u>449,507</u>	<u>8</u>	<u>457,138</u>	<u>9</u>

(4) Major customer information

Sales to individual customers for greater than 10% of total sales were as follows:

		For the year ended December 31,			
		2018		2017	
		Amount	% of net sales	Amount	% of net sales
SIGNAL	\$	635,592	13	571,681	12
CROWN RICH		544,069	11	465,727	10
	\$	<u>1,179,661</u>	<u>24</u>	<u>1,037,408</u>	<u>22</u>

Independent Auditors' Report

To the Board of Directors of Holtek Semiconductor Inc.:

Opinion

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

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

Basis for Opinion

We conducted our audit 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 auditor's responsibilities for the audit of the parent company only financial statements section of our report. We are independent of the Company in accordance with the 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

1. Revenue recognition — related-party and unrealized gross profits on sales to associates

Refer to Note 4(15) "Revenue recognition", and Note 7(2) "Significant related-party transactions" to the parent company only financial statements.

Description of key audit matter:

The revenue is the basic operational activity of the Company's sustainable operation, which is related to the operational performance of the enterprise, and because the main transaction is the relationship person, it has a high risk of high fraud. Therefore, the valuation of receivables is one of the key audit matters for our audit.

How the matter was addressed in our audit:

In relation to the key audit matter above, our principal audit procedures included testing the Company's controls surrounding revenue recognition, Collection operation cycle and Evaluating the reasonableness of commercial transactions; Evaluating revenue trend analysis; understanding the transactions of related parties and execution of the accounts; Executing the related party's letter of confirmation; Assessing the correctness and reasonableness of the gross profit margin of sales and the unrealized gross profit on sales to associates; and assessing whether the Company has properly disclosed relevant information about the sales of the related parties and unrealized gross profit on sales to associates.

2. Valuation of Inventories

Refer to Note 4(8) "Summary of Significant Accounting Policies—Inventories", Note 5 "Major Sources of Accounting Judgments, Estimations and Assumptions of Uncertainty", and Note 6(4) "Description of Significant Accounts—Inventories, net" to the parent company only financial statements.

Description of key audit matter:

Inventories are stated at the lower of cost or net realizable value, and the Company uses judgments and estimates to determine the net realizable value of inventory for obsolescence and unmarketable items at the reporting period. It also writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on the assumptions of the estimated selling price of the products within a specific time horizon. However, due to the rapid industrial transformation, the above estimation may have a significant change. Therefore, the allowance to reduce inventory to market is one of the key audit matters for our audit.

How the matter was addressed in our audit:

In relation to the key audit matter above, our principal audit procedures included reviewing the inventory age reports to analyze the changes in the inventory levels; performing computer audit procedures in order to check the correctness of age of inventory report; reviewing production and marketing meetings to assess inventory destocking; evaluating the inventory in accordance with the Company's established accounting policies; performing inventory traceability tests; and verifying the reasonableness of the sluggish loss.

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

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

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

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

Auditor's Responsibilities for the Audit of the Parent Company Only Financial Statements

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the parent company only financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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 Tseng, Mei Yu and Yu, Wan Yuan

KPMG

Hsinchu, Taiwan (Republic of China)

January 28, 2019

Notices to Readers

The accompanying parent company only financial statements are intended only to present the parent company only financial position, financial performance, and its cash flows in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards, International Accounting Standards, interpretations as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China. The standards, procedures and practices to audit such parent company only financial statements are those generally accepted and applied in the Republic of China.

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

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

Holtek Semiconductor Inc.

Balance Sheets

December 31, 2018 and 2017

(Expressed in thousands of New Taiwan Dollars)

		December 31, 2018		December 31, 2017				December 31, 2018		December 31, 2017	
Assets		Amount	%	Amount	%	Liabilities and Equity		Amount	%	Amount	%
Current assets:						Current liabilities:					
1100	Cash and cash equivalents (note 6(1))	\$ 1,178,768	22	921,425	18	2150	Notes payable	\$ 125,021	2	146,854	3
1110	Financial assets measured at fair value through profit or loss — current (note 6(2))	486,555	9	582,902	11	2170	Accounts payable	445,222	8	403,295	8
1170	Notes and accounts receivable, net (note 6(3))	82,999	2	101,082	2	2180	Accounts payable to related parties (note 7)	4,816	-	7,331	-
1180	Accounts receivable from related parties (note 6(3) and 7)	666,537	12	684,513	13	2201	Salary payable	250,206	5	250,133	5
130X	Inventories (note 6(4))	532,296	10	486,732	9	2230	Current income tax liabilities	96,612	2	82,152	2
1476	Other financial assets — current (notes 6(5) and 8)	576,752	10	670,131	13	2300	Other current liabilities	80,915	2	78,249	1
1470	Other current assets	22,236	-	23,298	-			1,002,792	19	968,014	19
		3,546,143	65	3,470,083	66		Non-current liabilities:				
Non-current assets:						2570	Deferred tax liabilities (note 6 (10))	159,729	3	110,137	2
1550	Investments accounted for using equity method (notes 6(6) and 7)	1,637,140	30	1,508,655	29	2640	Net defined benefit liabilities-non-current (note 6 (9))	76,602	1	72,938	1
1600	Property, plant and equipment (notes 6(7))	151,248	3	165,050	3	2645	Guarantee deposit received	8,542	-	8,542	-
1840	Deferred tax assets (note 6 (10))	69,706	1	49,503	1			244,873	4	191,617	3
1900	Other non-current assets	42,598	1	37,579	1		Total liabilities	1,247,665	23	1,159,631	22
		1,900,692	35	1,760,787	34		Equity (notes 6(11)) :				
						3110	Ordinary share capital	2,261,682	41	2,261,682	43
						3200	Capital surplus	142,309	3	142,309	3
						3300	Retained earnings	1,832,565	34	1,699,004	33
						3400	Other equity	(37,386)	(1)	(31,756)	(1)
							Total equity	4,199,170	77	4,071,239	78
Total assets		\$ 5,446,835	100	5,230,870	100		Total liabilities and equity	\$ 5,446,835	100	5,230,870	100

(See accompanying notes to parent company only financial statements.)

Chairman : Wu, Chi Yung

General Manager : Gau, Kuo Tung

Accounting Manager : Liao, Ming Tung

Holtek Semiconductor Inc.**Statements of Comprehensive Income****For the years ended December 31, 2018 and 2017****(Expressed in thousands of New Taiwan Dollars, except for Earnings per Share)**

		2018		2017	
		Amount	%	Amount	%
4000	Revenue (notes 6(14) and 7)	\$ 4,358,758	100	4,130,794	100
5000	Cost of Goods Sold (notes 6(4)、(9)、(13)、7 and 12)	2,274,449	52	2,235,347	54
	Gross profits	2,084,309	48	1,895,447	46
5910	Unrealized gross profit on sales to associates	33,928	1	38,452	1
	Realized gross profits	2,050,381	47	1,856,995	45
	Operating expenses (notes 6(9)、(13) and 12) :				
6100	Selling	98,669	2	98,272	3
6200	General and administrative	253,565	6	249,816	6
6300	Research and development	643,748	15	628,671	15
6450	Expected credit impairment loss (notes 6(3))	3,066	-	-	-
		999,048	23	976,759	24
	Operating income	1,051,333	24	880,236	21
	Non-operating income and expenses:				
7020	Other gains and losses (notes 6(15))	1,618	-	17,166	-
7070	Investment income accounted for using equity method (note 6(6))	170,610	4	147,145	4
7100	Interest income	9,349	-	7,318	-
		181,577	4	171,629	4
	Income before income tax	1,232,910	28	1,051,865	25
7950	Income tax (note 6 (10))	168,920	4	125,677	3
	Net income	1,063,990	24	926,188	22
8300	Other comprehensive income:				
8310	Items that will not be reclassified subsequently to profit or loss				
8311	Remeasurements of the defined benefit plans (notes 6(9))	(5,618)	-	(5,148)	-
8330	Unrealized losses from investments in equity instruments measured at fair value through other comprehensive income	(58,603)	(1)	-	-
8349	Income tax relating to items that will be not reclassified subsequently (notes 6(10))	1,124	-	875	-
		(63,097)	(1)	(4,273)	-
8360	Items that may be reclassified subsequently to profit or loss				
8361	Exchange differences on translation of financial statements of foreign affiliates	(16,431)	-	(9,426)	-
8371	Exchange differences on translation of financial statements of invested associates accounted for using equity method	(521)	-	456	-
8399	Income tax relating to items that may be reclassified subsequently (notes 6(10))	3,990	-	1,525	-
		(12,962)	-	(7,445)	-
8300	Other comprehensive income	(76,059)	(1)	(11,718)	-
	Total comprehensive income	\$ 987,931	23	914,470	22
	Earnings per share (New Taiwan Dollars) (note 6(12))				
9750	Basic earnings per share	\$ 4.70		4.10	
9850	Diluted earnings per share	\$ 4.66		4.06	

(See accompanying notes to parent company only financial statements.)**Chairman : Wu, Chi Yung General Manager : Gau, Kuo Tung Accounting Manager : Liao, Ming Tung**

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

Holtek Semiconductor Inc.

Statements of Changes in Equity

For the years ended December 31, 2018 and 2017

(Expressed in thousands of New Taiwan Dollars)

	Retained earnings						Total other equity interest			Total equity
	Ordinary share capital	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total retained earnings	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) from investments measured at fair value through other comprehensive income	Total other equity interest	
Balance as of January 1, 2017	\$ 2,261,682	159,281	781,525	2,642	784,511	1,568,678	(24,311)	-	(24,311)	3,965,330
Net income for the period	-	-	-	-	926,188	926,188	-	-	-	926,188
Other comprehensive income for the period	-	-	-	-	(4,273)	(4,273)	(7,445)	-	(7,445)	(11,718)
Total comprehensive income for the period	-	-	-	-	921,915	921,915	(7,445)	-	(7,445)	914,470
Retained earnings										
Appropriation for legal reserve	-	-	78,422	-	(78,422)	-	-	-	-	-
Appropriation for special reserve	-	-	-	24,312	(24,312)	-	-	-	-	-
Cash dividends distributed to shareholders	-	-	(109,918)	-	(681,671)	(791,589)	-	-	-	(791,589)
Changes in associates accounted for using equity method	-	(16,972)	-	-	-	-	-	-	-	(16,972)
Balance as of December 31, 2017	2,261,682	142,309	750,029	26,954	922,021	1,699,004	(31,756)	-	(31,756)	4,071,239
Effects of retrospective application	-	-	-	-	-	-	-	67,290	67,290	67,290
Balance as of January 1, 2018 after adjustments	2,261,682	142,309	750,029	26,954	922,021	1,699,004	(31,756)	67,290	35,534	4,138,529
Net income for the period	-	-	-	-	1,063,990	1,063,990	-	-	-	1,063,990
Other comprehensive income for the period	-	-	-	-	(4,494)	(4,494)	(12,962)	(58,603)	(71,565)	(76,059)
Total comprehensive income for the period	-	-	-	-	1,059,496	1,059,496	(12,962)	(58,603)	(71,565)	987,931
Appropriation and distribution of retained earnings:										
Appropriation for legal reserve	-	-	92,202	-	(92,202)	-	-	-	-	-
Appropriation for special reserve	-	-	-	7,445	(7,445)	-	-	-	-	-
Cash dividends distributed to shareholders	-	-	(104,942)	-	(822,348)	(927,290)	-	-	-	(927,290)
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	1,355	1,355	-	(1,355)	(1,355)	-
Balance as of December 31, 2018	<u>\$ 2,261,682</u>	<u>142,309</u>	<u>737,289</u>	<u>34,399</u>	<u>1,060,877</u>	<u>1,832,565</u>	<u>(44,718)</u>	<u>7,332</u>	<u>(37,386)</u>	<u>4,199,170</u>

(See accompanying notes to parent company only financial statements.)

Chairman : Wu, Chi Yung

General Manager : Gau, Kuo Tung

Accounting Manager : Liao, Ming Tung

Holtek Semiconductor Inc.**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 operating activities:		
Income before income tax	\$ 1,232,910	1,051,865
Adjustments:		
Adjustments to reconcile profit (loss)		
Depreciation	33,247	32,959
Amortization	54,186	69,433
Expected credit impairment loss	3,066	-
Interest income	(9,349)	(7,318)
Investments income accounted for using equity method	(170,610)	(147,145)
Unrealized gross profit on sales to associates	33,928	38,452
Other items not affecting cash flows, net	6,379	3,325
Changes in operating assets and liabilities:		
Decrease (increase) in available-for-sale financial assets	97,382	(222,513)
Decrease (increase) in accounts receivable (including related parties)	32,993	(164,069)
Increase in inventories	(53,019)	(71,927)
Increase in other operating assets	(12,247)	(3,993)
Increase in accounts payable	17,579	33,737
Decrease in net defined benefit liability	(1,953)	(1,784)
Increase in other operating liabilities	9,231	26,638
Cash flows generated from operations	1,273,723	637,660
Interest received	9,263	7,256
Dividend received	-	15,585
Income tax paid	(119,958)	(89,364)
Net cash flows generated from operating activities	1,163,028	571,137
Cash flows from investing activities:		
Acquisitions of investments accounted for using equity method	(3)	-
Acquisitions of property, plant and equipment	(19,502)	(20,101)
Proceeds from disposals of property, plant and equipment	33	-
Increase in refundable deposits	(724)	(183)
Decrease in other financial assets	105,908	419,314
Increase in other non-current assets	(64,107)	(48,391)
Net cash flows generated from investing activities	21,605	350,639
Cash flows from financing activities:		
Cash dividends paid	(927,290)	(791,589)
Net cash flows used in financing activities	(927,290)	(791,589)
Net increase in cash and cash equivalents	257,343	130,187
Cash and cash equivalents at beginning of period	921,425	791,238
Cash and cash equivalents at end of period	\$ 1,178,768	\$ 921,425

(See accompanying notes to parent company only financial statements.)

Chairman : Wu, Chi Yung General Manager : Gau, Kuo Tung Accounting Manager : Liao, Ming Tung

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements
December 31, 2018 and 2017
(Amounts expressed in thousands of New Taiwan Dollars,
except for per share information and unless otherwise noted)

1. Organization

Holtek Semiconductor Inc. (“the Company”) was incorporated on October 1, 1998, as a company limited by shares under the laws of the Republic of China (“ROC”) and the ROC Statute for the Establishment and Administration of the Science-Based Industrial Park. The Company began operations on December 11, 1998. The Company established a Hong Kong branch in April 2000. The shares of the Company have been listed on the Taipei Exchange (“TPEX”) since November 4, 2002, and then listed on the Taiwan Stock Exchange (“TWSE”) since September 27, 2004.

The Company is engaged mainly in the research, development, production, manufacture and sales of integrated circuits.

2. Approval Date and Procedures of the Financial Statements

The accompanying parent company only financial statements were authorized for issue by the Board of Directors on January 28, 2019.

3. New Standards, Amendments and Interpretations Adopted

- (1) Impact of adoption of new, revised or amended standards and interpretations endorsed by the Financial Supervisory Commission, ROC (“FSC”)

In preparing the accompanying parent company only financial statements, the Company has adopted the following International Financial Reporting Standards (“IFRS”), International Accounting Standards (“IAS”), and Interpretations that have been issued by the International Accounting Standards Board (“IASB”) (collectively, “IFRSs”) and endorsed by the FSC, with effective date from January 1, 2018.

New, Revised or Amended Standards and Interpretations	Effective Date Issued by IASB
Amendment to IFRS 2 <i>Clarifications of Classification and Measurement of Share-based Payment Transactions</i>	January 1, 2018
Amendments to IFRS 4 Applying IFRS 9 <i>Financial Instruments</i> with IFRS 4 <i>Insurance Contracts</i>	January 1, 2018
IFRS 9 <i>Financial Instruments</i>	January 1, 2018
IFRS 15 <i>Revenue from Contracts with Customers</i>	January 1, 2018
Amendment to IAS 7 <i>Disclosure Initiative</i>	January 1, 2017
Amendment to IAS 12 <i>Recognition of Deferred Tax Assets for Unrealized Losses</i>	January 1, 2017

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

New, Revised or Amended Standards and Interpretations	Effective Date Issued by IASB
Amendment to IAS 40 <i>Transfers of Investment Property</i>	January 1, 2018
Annual Improvements IFRS 2014-2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 <i>Foreign Currency Transactions and Advance Consideration</i>	January 1, 2018

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

A. IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and the relevant interpretations. The standard provides a single model for determining whether an entity recognizes revenue in accordance with the method, timing and amount by applying the five step model. The Company adopted IFRS 15 in its parent company only financial statements using the cumulative effect approach. As a result, there is no need to reproduce the comparative information in previous periods. The Company recognized the cumulative effect upon the initially application of the principle as an adjustment to the opening balance of retained earnings on January 1, 2018.

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

Sales of goods

For the sales of goods, revenue is currently recognized when goods are shipped. The related risks and rewards of ownership have to be transferred. 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 is recognizes when a customer obtains control of the goods.

There were no significant differences on the parent company only statements of comprehensive income presented under the IFRS 15, IAS 18 Revenue and the relevant interpretations.

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

B. 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.

As a result of the adoption of IFRS 9, the Company adopted the consequential amendments to IAS 1 *Presentation of Financial Statements* which requires impairment of financial assets to be presented in a separate line item in the statement of profit or loss and other comprehensive income. Previously, the Company's approach was to include the impairment of receivables in administrative expenses. Additionally, 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:

(a) 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 Company classifies and measures financial assets and accounts for related gains and losses under IFRS 9, please see note 4(6).

The adoption of IFRS 9 did not have any a significant impact on the Company's accounting policies on financial liabilities.

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

(b) Impairment of financial assets

IFRS 9 replaces the incurred loss model in IAS 39 with a forward-looking expected credit loss (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. For the related accounting policies on impairment of financial assets under IFRS 9, please refer to note 4(6).

(c) Transition

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

- Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognized in retained earnings and other equity interest as of 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.
 - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.
- If the credit risk of a debt securities investment is low under IFRS 9, the Company assumes that the credit risk of the asset has not increased significantly since the original recognition date.

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

(d) 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. (the measurement categories and carrying amount of financial liabilities have not changed).

	IAS39		IFRS9	
	Measurement categories	Carrying Amount	Measurement categories	Carrying Amount
Financial Assets				
Cash and cash equivalents	Loans and receivables	921,425	Amortized cost	921,425
Accounts receivable, net	Loans and receivables	785,595	Amortized cost	785,595
Other financial assets-current (Time deposits more than 3 months)	Loans and receivables (Bond investment without an active market)	670,131	Amortized cost	670,131
Refundable deposits	Loans and receivables	5,562	Amortized cost	5,562

C. Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealized Loss*

The amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value. The Company estimated the application of the amendments would not have any material impact on its parent company only financial statements.

(2) The impact of IFRSs endorsed by FSC but not yet effective.

According to Ruling No. 1070324857 issued on July 17, 2018 by the FSC, commencing from 2019, the Company is required to adopt the IFRSs that have been endorsed by the FSC with effective date from January 1, 2019. The related new, revised or amended standards and interpretations are set out below:

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

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

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

(iii) 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.

(c) 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 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.

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

(d) 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.

The lessee applies the election consistently to all of its leases.

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 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.
- adjust the right-of-use assets, based on the amount reflected in IAS 37 onerous contract provision, immediately before the date of initial application, as an alternative to an impairment review.
- apply the exemption not to recognize the right-of-use assets and liabilities to leases with lease term that ends within 12 months of the date of initial application.
- exclude the initial direct costs from measuring the right-of-use assets at the date of initial application.
- use hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

So far, the most significant impact identified is that the Company will have to recognize the new assets and liabilities for the operating leases of its offices. The Company estimated that the right-of-use assets and the lease liabilities to increase by \$93,218.

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

(iv) *IFRIC 23 Uncertainty over Income Tax Treatments*

In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates, an entity shall assume that a taxation authority will examine the amounts it has the right to examine and have a full knowledge on all related information when making those examinations.

If an entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates consistently with the tax treatment used or planned to be used in its income tax filings. Otherwise, an entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty.

So far, the Company estimated the application of the new amendments will not have any material impact on its parent company only financial statements.

(3) The impact of IFRSs issued by IASB but not yet endorsed by the FSC

As of the date the following IFRSs that have been issued by the IASB, but not yet endorsed by the FSC:

New, Revised or Amended Standards and Interpretations	Effective Date Issued by IASB
Amendments to IFRS 3 “ <i>Definition of a Business</i> ”	January 1, 2020
Amendment to IFRS 10 and IAS 28 <i>Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture</i>	Effective date to be determined by IASB
IFRS 17 <i>Insurance Contracts</i>	January 1, 2021
Amendments to IAS 1 and IAS 8 “ <i>Definition of Material</i> ”	January 1, 2020

The Company is in the process of assessing the impact on financial position and results of operations of the above standards and interpretations. The Company will disclose the related results when the assessment is finalized.

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

4. Summary of Significant Accounting Policies

The significant accounting policies applied in the preparation of these parent company only financial statements are summarized as follows. Except for those described individually, the significant accounting policies have been applied consistently to all periods presented in these parent company only financial statements.

(1) Statement of compliance

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

(2) Basis of preparation

A. Basis of measurement

The parent company only financial statements have been prepared on a historical cost basis except for the following material items in the balance sheets:

- (a) Financial assets measured at fair value through profit or loss are measured at fair value;
- (b) The net defined benefit liability is recognized as the fair value of the plan assets, less, the present value of the defined benefit obligation.

B. Functional and presentation currency

The functional currency of the Company is determined based on the primary economic environment in which the entity operates. The parent company only financial statements are presented in New Taiwan Dollars (NTD), which is the Company’s functional currency. All financial information presented in NTD has been rounded to the nearest thousand.

(3) Foreign currency

A. Foreign currency transactions

Transactions in foreign currencies are translated to the functional currencies 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 the 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.

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

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. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of transaction.

B. Foreign operations

The assets and liabilities of foreign operations are translated to NTD using the exchange rates at the reporting date with the exception of shareholders' equity, which is translated at historical cost rates, and income and expenses, which are translated to NTD at the average rate for the period. 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.

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

The Company classifies an asset as current when any one of the following requirements is met. Assets that are not classified as current are non-current assets.

- A. It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
- B. It holds the asset primarily for the purpose of trading;
- C. It expects to realize the asset within twelve months after the reporting period; or
- D. The asset is cash or 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.

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

The Company classifies a liability as current when any one of the following requirements is met. Liabilities that are not classified as current are non-current liabilities.

- A. It expects to settle the liability in its normal operating cycle;
- B. It holds the liability primarily for the purpose of trading;
- C. The liability is due to be settled within twelve months after the reporting period; or
- D. It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

(5) Cash and cash equivalents

Cash comprise cash and cash in bank. Cash equivalents are short-term and 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 held for the purpose of meeting short-term cash commitments rather than for investment or other purposes are classified as cash equivalents.

(6) Financial instruments (applicable starting from January 1, 2018.)

B. Financial assets

The Company classifies financial assets into the following categories: financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income and financial assets measured at fair value through profit or loss. Only when the business model for managing financial assets is changed shall all affected financial assets be reclassified.

(f) 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 measured at fair value through profit or loss:

- it is held within a business model whose objective is to hold financial 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.

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

Such financial assets are recognized initially at fair value, plus any directly attributable transaction costs. Subsequently, these assets are measured at amortized cost using the effective interest method, less any impairment losses. Interest income, foreign exchange gains and losses and recognition (reversal) of impairment losses are recognized in profit or loss.

(g) Financial assets measured at fair value through profit or loss

All financial assets not classified as measured at amortized cost or at fair value through other comprehensive income as described above are measured at fair value through profit or loss. This includes all derivative financial assets.

Such financial assets are recognized initially at fair value, and attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, they are measured at fair value, and changes therein are recognized in profit or loss.

(h) 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, refundable deposits and other financial assets).

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

- debt securities that are determined to have low credit risk at the reporting date ; and
- other debt securities and 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 accounts receivable 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 Company is exposed to credit risk.

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

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 considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of investment grade which is considered to be BBB- or higher per Standard & Poor's, Baa3 or higher per Moody's or twA or higher per Taiwan Ratings.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Company considers a financial asset to be in default when the financial asset is more than 180 days past due and the borrower is unlikely to pay its credit obligations to the Company in full.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls. 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.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. The loss allowance is charged to profit 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.

(i) De-recognition of financial assets

The Company derecognizes financial assets when the contractual rights of the cash inflow from the asset are terminated, or when the Company transfers substantially all the

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

risks and rewards of ownership of the financial assets.

(7) Financial instruments (applicable before January 1, 2018)

A. Financial assets

(a) Financial assets measured at fair value through profit or loss

Financial assets are classified as held for trading if they are acquired principally for the purpose of selling in the short term. Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, when an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, and is included in non-operating income and expenses. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade-date accounting.

(b) Receivables

Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Receivables comprise trade receivables and other receivables. Such assets are recognized initially at fair value, plus any directly attributable transaction costs. Subsequently, receivables are measured at amortized cost using the effective interest method, less any impairment. If the effect of discounting is immaterial, the short-term receivables are measured at the original amount.

(c) Impairment of financial assets

A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event has an impact on the estimated future cash flows of the financial asset that can be estimated reliably.

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 Company 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 may cause the actual losses are likely to be greater or less than those suggested by historical trends

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

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

If, in a subsequent period, the amount of impairment loss on a financial asset 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 the impairment was recognized at the reversal date.

(d) De-recognition of financial assets

The Company derecognizes financial assets when the contractual rights of 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.

B. Financial liabilities

(a) Accounts payable

Financial liabilities not classified as available-for-trading, or not designated as measured at fair value through profit or loss, which comprise accounts payable, and other payables, are measured at fair value plus any directly attributable transaction cost at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method.

(b) De-recognition of financial liabilities

The Company derecognizes a financial liability when its contractual obligation has been discharged or cancelled, or has expired. The difference between the carrying amount of a financial liability removed and the consideration paid is recognized in non-operating income and expenses.

(c) Offsetting of financial assets and liabilities

The Company presents financial assets and liabilities on a net basis when the Company has the legally enforceable right 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.

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

(8) Inventories

Inventories are measured at the lower of cost or net realizable value. The cost of inventories is based on the weighted average method and includes expenditure and other costs incurred in bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(9) Investment in associates

Associates are those entities in which the Company has significant influence, but not control, over their financial and operating policies. When the Company holds 20% to 50% of the voting rights of the investee company, it assumes that it has significant influence and adopts equity evaluation

Under the equity method, investments in associates 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 parent company only 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 the transactions between the Company and associates are eliminated to the extent of the Company's interest in the associate.

When the Company's share of losses exceeds its interest in associates, the carrying amount of that 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 a present legal or constructive obligation or has made payments on behalf of the investees.

(10) Investment in subsidiaries

The Company's subsidiaries are accounted for using equity method when preparing their parent company only financial statements. Under the equity method, profit, other comprehensive income and equity in the parent company only financial statements are equivalent to those of the profit, other comprehensive income and equity which are contributed to the owners of the parent in the parent company only financial statements.

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

The Company's change in the ownership interests of the subsidiaries did not result in loss of control and were treated as an interest transaction with the owner.

(11) Property, plant and equipment

A. 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 attributed to the acquisition of the asset, 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, and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. The cost of the software is capitalized as part of the equipment if the purchase of the software is necessary for the equipment to be capable of operating.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately, unless the useful life and the depreciation method of a significant part of an item of property, plant and equipment are the same as the useful life and depreciation method of another significant part of that same item.

The gain or loss arising from the de-recognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and it shall be recognized as non-operating income and expenses.

B. Subsequent cost

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

C. Depreciation

The depreciable amount of an asset is determined after deducting its residual amount, and it shall be allocated on a straight-line basis over its useful life. Each significant item of property, plant and equipment shall be evaluated individually and depreciated separately if it possesses a different useful life. The depreciation charge for each period shall be recognized in profit or loss.

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

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

- (a) Buildings: 20 to 30 years
- (b) Machinery and equipment: 3 to 5 years
- (c) Other equipment: 2 to 8 years

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

(12) Leases

Payments made under operating lease are recognized in expenses on a straight-line basis over the term of the lease.

(13) Intangible assets

A. Research and development

During the research phase, activities are carried out to obtain and understand new scientific or technical knowledge. Expenditures during this phase are recognized in profit or loss as incurred.

Expenditures arising from the development phase shall be recognized as an intangible asset if all the conditions described below can be demonstrated; otherwise, they will be recognized in profit or loss as incurred.

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

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

B. Other intangible assets

Other intangible assets acquired by the Company are measured at cost less accumulated amortization and any accumulated impairment losses.

C. Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates.

D. Amortization

The depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value. Amortization is recognized in profit or loss on a straight-line basis over estimated useful lives from the date that intangible assets are available for use.

The residual value, amortization period, and amortization method for an intangible asset with a finite useful life shall be reviewed at least annually at each reporting date. Any change shall be accounted for as changes in accounting estimates.

(14) Impairment of non-financial assets

The Company measures whether impairment has occurred in non-financial assets (except for inventories and deferred income tax assets) on every reporting date, and when there is an indication of impairment exist, the Company estimates its recoverable amount.

The recoverable amount for an 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 shall be reduced to its recoverable amount. That reduction is an impairment loss. An impairment loss shall be recognized immediately in profit or loss.

The Company would assess at each reporting date 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. An impairment loss recognized in prior periods for an asset other than goodwill shall be 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. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount as a reversal of a previously recognized impairment loss.

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

(15) Revenue from contract with customers (applicable starting 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 accounting policies for the Company's main types of revenue are explained below:

C. Sale of goods

The Company is engaged mainly in the research, development, production, manufacture and sales of integrated circuits. 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.

D. Financing components

The Company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money.

(16) Revenue recognition (applicable before January 1, 2018)

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists 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

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

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.

(17) Employee benefits

A. Defined contribution plans

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

B. Defined benefit plans

The Company's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any fair value of any plan asset is deducted. The discount rate is the yield at the reporting date (market yields of government bonds) on bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, 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 any plan in the Company. 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.

Remeasurements of the net defined benefit liability, which comprise (1) actuarial gains and losses (2) the return on plan assets (excluding interest) and (3) the effect of asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income.

C. Short-term employee benefits

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

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(18) Income tax

Income tax expenses include both current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes shall be recognized in profit or loss.

Current taxes include tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using the statutory tax rate on the reporting date, as well as tax adjustments related to prior years.

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases.

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

Deferred tax assets and liabilities may be offset against each other if the following criteria are met:

A. The entity has the legal right to settle tax assets and liabilities on a net basis; and

B. the taxing of deferred tax assets and liabilities fulfills one of the scenarios below:

(a) levied by the same taxing authority; or

(b) levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

A deferred tax asset should be recognized for the carry forward of 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 credits and deductible temporary differences can be utilized. Such unused tax credits and deductible temporary differences shall also be re-evaluated every year on the financial reporting date, and adjusted based on the probability that future taxable profit will be available against which the unused tax credits and deductible temporary differences can be utilized.

(19) Earnings per share

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

The Company discloses the Company's basic and diluted earnings per share attributable to ordinary shareholders of the Company. The calculation of basic earnings per share is based on the profit attributable to the ordinary shareholders of the Company divided by the weighted-average number of ordinary shares outstanding. The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of the Company, divided by the weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares, such as convertible bonds payable, unvested restricted stock awards and employee remuneration through the issuance of shares. The weighted-average outstanding shares are retroactively adjusted for the effects of stock dividends transferred from retained earnings and capital surplus to ordinary shares.

(20) Operating segment information

The Company has disclosed operating segment information in consolidated financial statements. Hence, this information is not required to be disclosed in these parent company only financial statements.

5. Major Sources of Accounting Judgments, Estimations and Assumptions of Uncertainty

The preparation of the parent company only financial statements in conformity with “ Regulations Governing the Preparation of Financial Reports by Securities Issuers” requires management to make judgments, estimations 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 estimations.

Management continues to monitor the accounting estimations and assumptions. Management recognizes any changes in the accounting estimations during the period in which the estimates are revised and in any future periods affected.

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:

Valuation of inventories

Inventories are stated at the lower of cost or net realizable value, and the Company uses judgments and estimates to determine the net realizable value of inventory for obsolescence and unmarketable items at the reporting period. It also writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on the assumptions of the estimated selling price of the products within a specific time horizon. However, due to the rapid industrial transformation, the above estimation may have a significant change. Please refer to note 6(4) for further description of the valuation of

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

inventories.

The Company's accounting policies include measuring financial and non-financial assets and liabilities at fair value through profit or loss. The Company's financial instrument valuation company conducts independent verification on fair value by using data sources that are independent, reliable, and representative of exercise prices. This financial instrument valuation company also periodically adjusts valuation models, conducts back testing, renews input data for valuation models, and makes all other necessary fair value adjustments to assure the rationality of fair value.

The Company strives to use market observable inputs when measuring assets and liabilities. Different levels of the fair value hierarchy to be used in determining the fair value of financial instruments are as follows:

Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

For any transfer within the fair value hierarchy, the impact of the transfer is recognized on the reporting date. Please refer to Note 6(15) for assumptions used in measuring fair value.

6. Description of Significant Accounts

(1) Cash and cash equivalents

	December 31,	
	2018	2017
Cash and cash in bank	\$ 151,095	70,837
Time deposits	1,027,673	850,588
	<u>\$ 1,178,768</u>	<u>921,425</u>

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

(2) Financial assets measured at fair value through profit or loss

	December 31,	
	2018	2017
Financial assets available-for-sale — beneficiary certificates	\$ 486,555	582,902

If there had been an increase or decrease in the fair value of securities of 1% on the reporting date, net income would have increased (or decreased) by \$3,892 and \$4,838 for the years ended December 31, 2018 and 2017, respectively. The analysis is performed on the same basis for both periods and assumes that all other variables remain constant.

(3) Notes and accounts receivable, net (including related parties)

	December 31,	
	2018	2017
Notes receivable	\$ 278	827
Accounts receivable	93,180	107,648
Accounts receivable from related parties	666,537	684,513
	759,995	792,988
Less: allowance for doubtful accounts	(10,459)	(7,393)
	\$ 749,536	785,595

The Company applies the simplified approach to provide for its loss allowance used for ECL, which permit the use of lifetime expected loss provision for notes and accounts receivable as of December 31, 2018. The ECL on notes and accounts receivable by reference to past default experience of the customers and credit risk characteristics, as well as forward looking information, the loss allowance as of December 31, 2018 was determined as follows:

	Gross carrying amount	Weighted-average loss rate	Loss allowance
Not past due	\$ 743,494	0.5%~0.15%	7,287
Past due 0~90days	2,118	5.00	106
	\$ 745,612		7,393

Individual customers' accounts receivable amounted to \$14,383 as of December 31, 2018, which has been assessed as having default risk. Therefore, the Company provides the loss allowance for the customer amounted to \$3,066 as of December 31, 2018.

As of December 31, 2017, the Company applies the incurred loss model to consider the allowance for doubtful accounts of notes and accounts receivable. The Company has no

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

overdue notes and accounts receivable (including related parties) without impairment.

No impairment loss of the notes and accounts receivables were occurred and recognized for the years ended December 31, 2017.

Changes in the loss allowance for the Company's notes and accounts receivable was as follows:

	For the year ended December 31,	
	2018	2017
		Collectively assessed impairment
Beginning balance (according to IAS39)	\$ 7,393	<u>7,393</u>
Adjustments on initial application of IFRS 9	<u>-</u>	
Beginning balance (according to IFRS 9)	7,393	
Impairment losses recognized	<u>3,066</u>	
Ending balance	<u>\$ 10,459</u>	

Note : Both ending balances are the same as the opening balance

(4) Inventories

	December 31,	
	2018	2017
Raw materials	\$ 155,344	101,482
Work in process	248,246	216,127
Finished goods and merchandise inventories	<u>128,706</u>	<u>169,123</u>
	<u>\$ 532,296</u>	<u>486,732</u>

The details of operating costs were as follows:

	For the year ended December 31,	
	2018	2017
Cost of goods sold	\$ 2,266,994	2,230,812
Cost of scrap materials	<u>7,455</u>	<u>4,535</u>
	<u>\$ 2,274,449</u>	<u>2,235,347</u>

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

(5) Other current financial assets-current

	December 31,	
	2018	2017
Time deposits (more than 3 months)	\$ 559,900	665,700
Restricted cash in banks	3,612	3,720
Others	13,240	711
	<u>\$ 576,752</u>	<u>670,131</u>

No impairment loss of other financial assets-current were occurred and recognized for the year ended December 31, 2018 and 2017.

Please refer to note 6 (16) for further information of credit risk.

(6) Investments accounted for using equity method

Investments accounted for using equity method at the reporting date were as following:

	December 31,	
	2018	2017
Subsidiaries	\$ 1,809,247	1,646,899
Less: unrealized gross profits on sales to associates	(172,107)	(138,244)
	<u>\$ 1,637,140</u>	<u>1,508,655</u>

Please refer to consolidated financial statements for the year ended December 31, 2018, for the subsidiaries information.

Share of the profit of subsidiaries accounted for using equity method were \$170,610 and \$147,145 for the years ended December 31, 2018 and 2017, respectively.

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

(7) Property, plant and equipment

Changes in the cost, and depreciation of the Company's property, plant and equipment were as follows:

	Land	Buildings	Machinery and equipment	Other equipment	Total
Cost:					
Balance as of January 1, 2018	\$ 26,676	265,663	247,694	42,502	582,535
Additions	-	3,319	15,188	995	19,502
Disposals	-	-	(5,565)	(75)	(5,640)
Balance as of December 31, 2018	<u>\$ 26,676</u>	<u>268,982</u>	<u>257,317</u>	<u>43,422</u>	<u>596,397</u>
Balance as of January 1, 2017	\$ 26,676	264,352	244,767	46,513	582,308
Additions	-	1,311	11,512	7,278	20,101
Disposals	-	-	(8,585)	(11,289)	(19,874)
Balance as of December 31, 2017	<u>\$ 26,676</u>	<u>265,663</u>	<u>247,694</u>	<u>42,502</u>	<u>582,535</u>
Accumulated depreciation:					
Balance as of January 1, 2018	\$ -	169,688	220,104	27,693	417,485
Depreciation for the period	-	14,133	13,954	5,160	33,247
Disposals	-	-	(5,508)	(75)	(5,583)
Balance as of December 31, 2018	<u>\$ -</u>	<u>183,821</u>	<u>228,550</u>	<u>32,778</u>	<u>445,149</u>
Balance as of January 1, 2017	\$ -	156,236	214,147	34,017	404,400
Depreciation for the period	-	13,452	14,542	4,965	32,959
Disposals	-	-	(8,585)	(11,289)	(19,874)
Balance as of December 31, 2017	<u>\$ -</u>	<u>169,688</u>	<u>220,104</u>	<u>27,693</u>	<u>417,485</u>
Book value:					
Balance as of December 31, 2018	<u>\$ 26,676</u>	<u>85,161</u>	<u>28,767</u>	<u>10,644</u>	<u>151,248</u>
Balance as of December 31, 2017	<u>\$ 26,676</u>	<u>95,975</u>	<u>27,590</u>	<u>14,809</u>	<u>165,050</u>
Balance as of January 1, 2017	<u>\$ 26,676</u>	<u>108,116</u>	<u>30,620</u>	<u>12,496</u>	<u>177,908</u>

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

(8) Operating lease

A. Based on the terms of lease contracts of office buildings, parking spaces, and staff dormitory, the future minimum lease payments are as follows:

	December 31,	
	2018	2017
Less than one year	\$ 15,458	6,198
Between one and two years	12,885	191
More than two years	5,974	-
	<u>\$ 34,317</u>	<u>6,389</u>

B. The Company entered into a land lease agreement with the Hsinchu Science Park Administration. The term of the lease is from March 15, 2001 to December 31, 2020. When the lease term expires, a new agreement will be offered. The annual rental fee is around \$3,558 from February 2018. The rental payment is subject to an adjustment as the government revises the land value.

(9) Employee benefits

A. Defined benefit plans

The present value of the defined benefit obligation and the fair value adjustments of the plan assets for the Company were as follows:

	December 31,	
	2018	2017
Present value of the defined benefit obligation	\$ 127,611	123,354
Fair value of plan assets	(51,009)	(50,416)
Net defined benefit liabilities	<u>\$ 76,602</u>	<u>72,938</u>

The Company makes defined benefit plan contributions to the pension fund account at Bank of Taiwan that provides pensions for employees upon retirement. The plans (covered by the Labor Standards Law) entitle a retired employee to receive an annual payment based on years of service and average salary for the six months prior to retirement.

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

(a) Composition of plan assets

The Company allocates pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Bureau of Labor Funds, Ministry of Labor (hereinafter referred to as the Bureau of Labor Funds). Minimum earnings shall be no less than the earnings attainable from two-year time deposits with interest rates offered by local banks.

The Company's Bank of Taiwan labor pension reserve account balance amounted to \$51,009 as of December 31, 2018. For information on the utilization of the labor pension fund assets including the asset allocation and yield rate of the fund, please refer to the website of the Bureau of Labor Funds.

(b) Changes in the present value of the defined benefit obligation

The changes in the present value of the defined benefit obligation of the Company for the years ended December 31, 2018 and 2017 were as follows:

	For the year ended December 31,	
	2018	2017
Defined benefit obligation as of January 1	\$ 123,354	118,013
Benefits paid from plan assets	(4,234)	(1,310)
Current service costs and interest	1,480	1,770
Remeasurements of the net defined benefit liabilities		
— Actuarial loss (gain) arising from changes in financial assumptions	3,225	4,941
— Actuarial loss (gain) arising from experience adjustments	3,786	(60)
Defined benefit obligation as of December 31	<u>\$ 127,611</u>	<u>123,354</u>

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

(c) Changes in the fair value of the defined benefit plan assets

The changes in the fair value of the defined benefit plan assets of the Company for the years ended December 31, 2018 and 2017 were as follows:

	For the year ended December 31,	
	2018	2017
Fair value of plan assets as of January 1	\$ 50,416	48,439
Benefits paid from plan assets	(4,234)	(1,310)
Interest income	622	748
Contributions made	2,812	2,806
Remeasurements of the net defined benefit liabilities		
— Return on plan assets (excluding current interest)	1,393	(267)
Fair value of plan assets as of December 31	<u>\$ 51,009</u>	<u>50,416</u>

(d) Expenses recognized in profit or loss

The Company's expenses recognized in profit or losses for the years ended December 31, 2018 and 2017, were as follows:

	For the year ended December 31,	
	2018	2017
Net interest on the net defined benefit liabilities	<u>\$ 858</u>	<u>1,022</u>
Cost of goods sold	\$ 57	70
Selling expenses	65	79
General and administrative expenses	152	185
Research and development expenses	584	688
	<u>\$ 858</u>	<u>1,022</u>

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

- (e) Remeasurements of the net defined benefit liabilities recognized in other comprehensive income

The Company's remeasurements of the net defined benefit liabilities recognized as accumulated in other comprehensive income for the years ended December 31, 2018 and 2017 were as follows:

	For the year ended December 31,	
	2018	2017
Cumulative amount as of January 1	\$ 15,885	10,737
Recognized for the period	5,618	5,148
Cumulative amount as of December 31	<u>\$ 21,503</u>	<u>15,885</u>

- (f) Actuarial assumptions

The following are the Company's significant actuarial assumptions of the present value of the defined benefit obligation at the reporting date

	December 31,	
	2018	2017
Discount rate	1.00%	1.20%
Future salary increase rate	2.00%	2.00%

The Company expects to make a contribution of \$2,880 to its defined benefit plans in the following year, beginning December 31, 2018.

The weighted-average duration of the defined benefit obligation is 12.6 years.

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

(g) Sensitivity analysis

If there is a change in the actuarial assumptions as of the December 31, 2018 and 2017, the impact on the defined benefit obligation would be as follows:

<u>actuarial assumptions</u>	Impact on the defined benefit obligation	
	<u>Increase 1%</u>	<u>Decrease 1%</u>
December 31, 2018		
Discount rate	<u>\$ (15,127)</u>	<u>17,814</u>
Future salary increase rate	<u>\$ 16,056</u>	<u>(14,039)</u>
December 31, 2017		
Discount rate	<u>\$ (15,542)</u>	<u>18,433</u>
Future salary increase rate	<u>\$ 16,710</u>	<u>(14,503)</u>

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown above. In practical, the relevant actuarial assumptions are correlated to each other. The method used in the sensitivity analysis is consistent with the calculation of pension liabilities in the balance sheets.

There is no change in the method and assumptions used in the preparation of sensitivity analysis for 2018 and 2017.

B. Defined contribution plans

In accordance with the provisions of the Labor Pension Act, the Company should contribute 6% of its employees' monthly wages to their labor pension personal accounts of the Bureau of Labor Insurance, Ministry of Labor (hereinafter referred to as the Bureau of Labor Insurance). Under this defined contribution plan, the Company contributes a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligations. The Company's pension costs under the defined contribution plan were \$21,105 and \$20,056 for the years ended December 31, 2018 and 2017, respectively.

Except for the above, the total pension costs of the Company's overseas branch under their respective defined contribution plan were \$2,247 and \$808 for the years ended December 31, 2018 and 2017, which were recognized in accordance with their local regulations.

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

(10) Income tax

A. Income tax expenses

According to the amendments to the “Income Tax Act” enacted by the office of the President of the R.O.C. 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 from 2018.

The amount of income tax expenses for the years ended December 31, 2018 and 2017, was as follows:

	For the year ended December 31,	
	2018	2017
Current income tax expense		
Current period	\$ 138,171	111,687
Adjustment to prior years	(3,754)	509
	<u>134,417</u>	<u>112,196</u>
Deferred income tax expense		
Temporary differences	23,202	13,481
Adjustment in tax rate	11,301	-
	<u>34,503</u>	<u>13,481</u>
Income tax expenses	<u>\$ 168,920</u>	<u>125,677</u>

The amount of income tax expense (benefit) recognized in other comprehensive income for the years ended December 31, 2018 and 2017, was as follows:

	For the year ended December 31,	
	2018	2017
Items that will not be reclassified subsequently to profit or loss:		
Remeasurements of the defined benefit plans	<u>\$ (1,124)</u>	<u>(875)</u>
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of foreign affiliates	(3,870)	(1,603)
Exchange differences on translation of financial statements of invested associates accounted for using equity method	(120)	78
	<u>\$ (3,990)</u>	<u>(1,525)</u>

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

The reconciliation of income tax expenses and income before income tax was as follows:

	For the year ended December 31,	
	2018	2017
Income before income tax	\$ 1,232,910	1,051,865
Income tax at the Company's domestic tax rate	246,582	178,817
Permanent differences adjustment	(4,459)	(5,796)
Tax-exempt income	(77,572)	(55,078)
Estimated increase in investment tax credit	(2,498)	-
Basic income tax	-	8,619
Adjustment in tax rate	11,301	-
Other	(4,434)	(885)
	\$ 168,920	125,677

B. The changes of deferred tax assets and liabilities were as follows:

Deferred tax assets

	January 1, 2017	Recognized in profit or loss	Recognized in other comprehensive income	December 31, 2017	Recognized in profit or loss	Recognized in other comprehensive income	December 31, 2018
Unrealized loss from Inventory devaluation	\$ 10,200	-	-	10,200	(1,800)	-	10,200
Unrealized gross profit from sales to associates	16,976	(6,525)	-	23,501	(10,920)	-	34,421
Net defined benefit liabilities	11,827	303	(875)	12,399	(1,797)	(1,124)	15,320
Loss from exchange differences on translation of financial statements of foreign affiliates	1,878	-	(1,525)	3,403	-	(3,990)	7,393
Others	199	199	-	-	(572)	-	572
	\$ 41,080	(6,023)	(2,400)	49,503	(15,089)	(5,114)	69,706

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

Deferred tax liabilities

	January 1, 2017	Recognized in profit or loss	Recognized in other comprehensive income	December 31, 2017	Recognized in profit or loss	Recognized in other comprehensive income	December 31, 2018
Foreign investment gains under the equity method	\$ (89,704)	19,381	-	(109,085)	49,526	-	(158,611)
Others	(929)	123	-	(1,052)	66	-	(1,118)
	<u>\$ (90,633)</u>	<u>19,504</u>	<u>-</u>	<u>(110,137)</u>	<u>49,592</u>	<u>-</u>	<u>(159,729)</u>

C. The tax authorities have assessed the Company's income tax returns through 2015.

(11) Capital and other equity interest

A. Ordinary shares

As of December 31, 2018 and 2017, the authorized capital of the Company amounted to \$3,000,000 of which included the amount of \$200,000 reserved for employee share options and the amount of \$500,000 for convertible bonds. The Company's issued and outstanding common stock, with par value of \$10 per share, both amounted to \$2,261,682 as at December 31, 2018 and 2017.

B. Capital surplus

The balance of capital surplus as of December 31, 2018 and 2017, were as follows:

	December 31,
	2018
	2017
Capital surplus — premium	<u>\$ 142,309</u>
	<u>142,309</u>

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 distributed as stock or cash dividends. The aforementioned realized capital surplus includes capital surplus resulting from premium on issuance of capital stock and earnings from donated assets received

Pursuant to the R.O.C. Regulations Governing the Offering and Issuance of Securities by Securities Issuers, the total sum of the capital surplus capitalized per annum shall not exceed 10% of the paid-in capital.

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

C. Retained earnings

According to the Company's Articles of Incorporation, if the Company has profit as a result of the accounting year, the Company shall first pay taxes, offset its losses in previous years and set aside a legal reserve at 10% of the profits left over, until the accumulated legal capital reserve has equaled the total capital of the Company, then set aside special capital reserve in accordance with relevant laws or regulations or as requested by business. Any rest balance, added to the accumulated undistributed earnings in previous years, shall be allocated by board of directors and shall be approved in shareholders' meeting.

The amount of dividends distributed to shareholders shall be no less than 50% of the distributable earnings of the year and no less than 50% of the shareholder's dividends shall be in the form of cash.

(a) Legal reserve

Pursuant to the R.O.C. Company Act, the appropriation for legal reserve shall be made until the reserve equals the Company's paid-in capital. If the Company incurs no loss, the reserve may be distributed as cash or stock dividends for the portion in excess of 25% of the paid-in capital.

(b) Special reserve

By choosing to apply exemptions granted under IFRS 1 during the Company's first-time adoption of the IFRSs endorsed by the FSC, cumulative translation adjustments under shareholders' equity shall be reclassified as retained earnings at the adoption date. The increase in retained earnings occurring before the adoption date due to the first-time adoption of the IFRSs endorsed by the FSC amounted to \$18,008. And the Company's actuarial gains and losses be reclassified as retained earnings at the adoption date. The decrease in retained earnings occurring before the adoption date due to the first-time adoption of the IFRSs endorsed by the FSC amounted to \$13,410. In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, a net increase in retained earnings due to the first-time adoption of the IFRSs endorsed by the FSC shall be reclassified as a special reserve amounted to \$4,598 during earnings distribution, and when the relevant asset is used, disposed of, or reclassified, this special reserve shall be reversed as distributable earnings proportionately.

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

The Company liquidated its subsidiary, Holtek Semiconductor (Shenzhen) Inc. in August, 2014. In accordance with the provisions of the above-mentioned regulations, the special reserve was reclassified to retained earnings amounted to \$1,956. The carrying amount of special reserve both amounted to \$2,642 as of December 31, 2018 and 2017.

In accordance with the guidelines of the above Ruling, a portion of current-period earnings and undistributed prior-period earnings shall be reclassified as a special reserve during earnings distribution. The amount to be reclassified should be equal to the difference between the total net current-period reduction of special reserve resulting from the first-time adoption of the IFRSs endorsed by the FSC and the carrying amount of other shareholders' equity as stated above. Similarly, a portion of undistributed prior-period earnings shall be reclassified as a special reserve (which does not qualify for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior periods due to the first-time adoption of the IFRSs endorsed by the FSC. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions.

(c) Earnings distribution

The following are the appropriation of earnings in 2017 and 2016 which were approved in the shareholders' meeting held on May 28, 2018 and May 26, 2017, respectively:

	For the year ended December 31,			
	2017		2016	
	NT dollars per share	Total amount	NT dollars per share	Total amount
Cash dividends distributed to ordinary shareholders:	\$ 4.10	927,290	3.50	791,589

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

(12) Earnings per share

The Company's calculation of basic earnings per share was as follows:

	For the year ended December 31,	
	2018	2017
Basic earnings per share:		
Net income for the period	\$ 1,063,990	926,188
Weighted-average number of ordinary shares outstanding during the year (in thousands)	226,168	226,168
Basic earnings per share (NT dollars)	\$ 4.70	4.10
Diluted earnings per share:		
Net income for the period	\$ 1,063,990	926,188
Weighted-average number of ordinary shares outstanding during the year (in thousands)	226,168	226,168
Remuneration to employees	2,335	1,746
Weighted-average number of ordinary shares outstanding during the year (diluted) (in thousands)	228,503	227,914
Diluted earnings per share (NT dollars)	\$ 4.66	4.06

(13) Remuneration to employees and directors

According to the Company's Articles of Incorporation, when allocating the net profits for each fiscal year, the Company shall distribute 5~15% of profit of the current year distributable as employees' compensation and no more than 1.5% of profit of the current year distributable as remuneration of directors and supervisors. However, the Company's accumulated losses shall have been covered.

The remunerations to employees amounted to \$129,225 and \$111,567, and the remunerations to directors amounted to \$14,248 and \$12,286 for the years ended December 31, 2018 and 2017, respectively. These amounts were calculated using the Company's net income before tax without the remunerations to employees and directors for each period, multiplied by the percentage which is stated under the Company's Article of Incorporation. These remunerations were expensed under cost of goods sold or expenses for the years ended December 31, 2018 and 2017. If there are any subsequent adjustments to the actual remuneration amounts after the annual shareholders' meeting, the adjustment will be regarded as changes in accounting estimates and will be reflected in profit or loss in the following year. If remuneration to

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

employees is resolved to be distributed in stock, the number of shares is determined by dividing the amount of remuneration by the closing market price of the shares on the day preceding the board of directors' meeting.

The remunerations to employees in cash amounted to \$111,567 and \$94,738, and the remunerations to directors in cash amounted to \$12,286 and \$10,526 for the years ended December 31, 2017 and 2016, respectively. The actual remunerations to directors in cash amounted to \$12,176 for the years ended December 31, 2017, and the difference is an estimate of the difference. And the actual remunerations to directors in cash amounted to \$10,416 for the years ended December 31, 2016, and the difference is recognized as accounts adjustments for the years ended December 31, 2017. The information is available on the Market Observation Post System website.

(14) Revenue from Contracts with Customers

C. Segmentation of revenue

	For the year ended December 31, 2018
Revenues from major regional markets:	
China	3,331,122
Taiwan	570,137
Others	457,499
	<u>4,358,758</u>

Revenue from major products:

sales of integrated circuits	4,296,835
Design revenue	61,923
	<u>4,358,758</u>

D. Contract balance

Please refer to note 6(3) for the amount of accounts receivables and impairment loss.

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

(15) Non-operating income and expenses

The details of other income and expenses were as follows:

	<u>For the year ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Foreign exchange gains (losses), net	\$ (3,977)	14,267
Others	<u>5,595</u>	<u>2,899</u>
	<u>\$ 1,618</u>	<u>17,166</u>

(16) Financial instruments

A. Credit risk

(a) Exposure to credit risk

Maximum credit risk exposure is mainly from the carrying amount of financial assets recognized in the balance sheet. The amounts of maximum credit risk exposure for the years ended December 31, 2018 and 2017, were \$2,997,897 and \$2,965,615 respectively.

Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factors were cash and cash equivalents, time deposits over 3 months, and customers' accounts receivables.

The cash and time deposits are deposited in different financial institutions.

The Company manages the credit risk exposure with each of these financial institutions and believes that cash do not have a significant credit risk concentration.

The main sales of the Company are domestic and foreign companies with good reputation, in addition to the credit line according to the operation procedures, and continue to understand the credit status of customers. As of December 31, 2018 and 2017, customers (including related parties) whose notes and accounts receivables that accounted for more than 10% have amounted to \$410,501 and \$308,859, respectively. The Company has concentration of credit risk arising from sales transactions. The Company has estimated the recoverable amount and recognized allowance for doubtful accounts, the management expected that no significant impairment loss will occurred.

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

(b)Credit risk of accounts receivables and debt securities

Please refer to note 6(3) for the information of the credit risk exposure of note and trade receivables.

Other financial assets at amortized cost include time deposits (more than 3 months) and restricted cash in banks. Please refer to note 6(5) for the information of the details and loss allowance.

Please refer to note 4(6) for the information of the above financial assets are considered to have low risk, and thus, the impairment provision recognized during the period was limited to 12 months expected losses. Regarding how the financial instruments are considered to have low credit risk.

B. Liquidity risk

The following are the contractual maturities of financial liabilities:

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 1year</u>	<u>More than 5 years</u>
December 31, 2018				
Non-derivative financial liabilities				
Notes and accounts payable (including related parties)	\$ 575,059	575,059	575,059	-
Guarantee deposit received	<u>8,542</u>	<u>8,542</u>	<u>-</u>	<u>8,542</u>
	<u>\$ 583,601</u>	<u>583,601</u>	<u>575,059</u>	<u>8,542</u>
December 31, 2017				
Non-derivative financial liabilities				
Notes and accounts payable (including related parties)	\$ 557,480	557,480	557,480	-
Guarantee deposit received	<u>8,542</u>	<u>8,542</u>	<u>-</u>	<u>8,542</u>
	<u>\$ 566,022</u>	<u>566,022</u>	<u>557,480</u>	<u>8,542</u>

The Company does not expect that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

C. Market risk

(a) Currency risk

i. Exposure to currency risk

The Company's financial assets and liabilities exposed to exchange rate risk were as follows:

		December 31, 2018			December 31, 2017		
		Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD
<u>Financial assets</u>							
<u>Monetary items</u>							
USD	\$	10,924	30.665	334,987	6,405	29.71	190,291
RMB		162,242	4.4459	721,313	143,985	4.5394	653,605
<u>Non-monetary items</u>							
USD	\$	42,996	30.665	1,318,474	40,708	29.71	1,209,424
<u>Financial liabilities</u>							
<u>Monetary items</u>							
USD	\$	9,311	30.665	285,533	8,081	29.71	240,082
RMB		13,886	4.4459	61,737	14,933	4.5394	67,786

ii. Sensitivity analysis

The Company's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable, other receivables, and accounts payable that are denominated in foreign currency. A fluctuation in the NTD/RMB and USD exchange rate on the reporting date, with other factors remaining constant, would have increased or decreased the net income amounted to \$5,672 and \$4,449 for the years ended December 31, 2018 and 2017, respectively.

iii. Foreign exchange gains (losses) on monetary items

Due to the variety of the functional currencies of the Company, the Company's foreign exchange gains (losses) on monetary items amounted to (\$3,977) and \$14,267

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

for the years ended December 31, 2018 and 2017, respectively.

D. Fair value of financial instruments

(a) Categories of financial instruments and fair value

The fair value of financial assets and liabilities at fair value through profit or loss is measured on a recurring basis. The Company's carrying amount and the fair value of financial assets and liabilities (including information for fair value hierarchy, but excluding financial instruments whose fair values approximate the carrying amounts and equity investments which cannot be estimated reliably in an active market) were as follows:

	December 31, 2018				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through profit or loss	\$ 486,555	486,555	-	-	486,555
Financial assets measured at amortized cost					
Cash and cash equivalents	1,178,768	-	-	-	-
Notes and accounts receivable (including related parties), net	749,536	-	-	-	-
Other financial assets – current	576,752	-	-	-	-
Refundable deposits (recorded in other non-current assets)	6,286	-	-	-	-
	<u>\$ 2,997,897</u>	<u>486,555</u>	<u>-</u>	<u>-</u>	<u>486,555</u>
Financial liabilities measured at amortized cost					
Notes and accounts payable (including related parties), net	\$ 575,059	-	-	-	-
Guarantee deposit received	8,542	-	-	-	-
	<u>\$ 583,601</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

	December 31, 2017				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through profit or loss	\$ 582,902	582,902	-	-	582,902
Loans and receivables					
Cash and cash equivalents	921,425	-	-	-	-
Notes and accounts receivable (including related parties), net	785,595	-	-	-	-
Other financial assets – current	670,131	-	-	-	-
Refundable deposits (recorded in other non-current assets)	<u>5,562</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,965,615</u>	<u>582,902</u>	<u>-</u>	<u>-</u>	<u>582,902</u>
Financial liabilities measured at amortized cost					
Notes and accounts payable (including related parties), net	\$ 557,480	-	-	-	-
Guarantee deposit received	<u>8,542</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 566,022</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

(b) Valuation techniques for financial instruments that are measured at fair value

The Company valuation techniques and assumptions used for financial instruments of financial assets with standard terms and conditions and traded in active markets are determined with reference to quoted market prices.

(c) There was no transfer of fair value level as of December 31, 2018 and 2017

(17) Financial risk management

A. Overview

The Company is exposed to the following risks due to usage of financial instruments:

- (a) Credit risk
- (b) Liquidity risk
- (c) Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk. Further

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

quantitative disclosures can be referred to note 6 (16).

B. Risk management framework

The Board of Directors has overall responsibility for developing and monitoring of the Company's risk management policies.

The Company's risk management policies are established to identify and analyze the risks 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 its 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 Board of Directors of the Company 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 Audit Committee 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.

C. 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 cash and cash equivalents, and accounts receivables.

Please refer to Note 6 (16) for the credit risk analyses of cash and cash equivalents, and accounts receivables. As of December 31, 2018 and 2017, no guarantees were outstanding.

D. 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. The Company's approach to managing liquidity is to ensure, as far as possible, that it always has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

Company treasury monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs. The Company also monitors the level of expected cash flows on long-term and short-term trades. Company treasury invests surplus cash in time deposits with appropriate maturities or other short-term investments to ensure sufficient liquidity and meet its liabilities when due. As of December 31, 2018, the Company's unused credit line were amounted to \$153,575, respectively, which ensures compliance with the terms of loan agreements and cope with its operations and avoid liquidity risk.

E. Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. Market risk comprises currency risk, interest risk, and other price risk (such as risk related to equity instruments). The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Company controls the risks arising from fluctuation of market rate and price change of beneficiary certificates, all significant transactions are approved by the Board of Directors. The relevant financial operations are monitored by internal audit department.

The management regulations are as follows:

- (1) The Company is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of the Company, primarily the US Dollar (USD), and the Chinese Yuan (RMB).

When a short-term imbalance of financial assets and liabilities in foreign currency occurred, the Company can maintain the net exposure risk at an acceptable level by purchasing or selling foreign currency at current rate.

- (2) Every significant investment of the Company's portfolio is managed individually, and all the decisions on transactions are approved by the Board of Directors.

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

(18) Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios to support its business and maximize owner value.

The strategy of capital structure management is based on the Company's industry scope, the future cost of industry, and products development blueprint. The Board of Directors settled the strategy to determine an applicable market share, and decide the operating capitals to make an overall plan for the various assets scales that the Company can develop continuously. Finally, the Board of Directors will estimate possible marginal utility, operating profit margin, and cash flows based on the competitiveness of the Company's products, and will consider different risk factors like business cycle fluctuation, product life cycle, to determine the appropriate capital structure for the Company.

The Board of Directors monitors the capital structure regularly, and considers the potential risk the Company may be involved in various capital structures.

There were no changes in the Company's approach to capital management during the year ended December 31, 2018.

The Company's debt-to-adjusted-capital ratio at the reporting date was as follows:

	December 31,	
	2018	2017
Total liabilities	\$ 1,247,665	1,159,631
Total equity	\$ 4,199,170	4,071,239
Debt-to-adjusted-capital ratio	29.71%	28.48%

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

7. Related-party Transactions

(1) Names and relationship with related parties

The followings are the Company's subsidiaries and the related parties which had transaction with the Company during the periods covered in the parent company only financial statements.

Name of related parties	Relationship with the Company
MCU Holdings Ltd. (MCU)	A subsidiary of the consolidated company
Holtek Semiconductor Holding (BVI) Ltd. (HOLTEK (BVI))	A subsidiary of the consolidated company
Sigmos Holdings Ltd. (Sigmos)	A subsidiary of the consolidated company
Kingtek Semiconductor Holding (BVI) Ltd.(Kingtek BVI)	A subsidiary of the consolidated company
Holtek Investment Co., Ltd. (Holtek Investment)	A subsidiary of the consolidated company
Best Health Electronics Corp. (Best Health)	A subsidiary of the consolidated company
Best Health Electronics (Dongguan) Corporation	A subsidiary of the consolidated company
Anchip Technology Corporation (Anchip)	A subsidiary of the consolidated company
Anchip Technology (Dongguan) Corporation	A subsidiary of the consolidated company
Best Power Electronics Cop.(Best Power)	A subsidiary of the consolidated company
Holtek Semiconductor (Xiamen) Inc.	A subsidiary of the consolidated company
Holtek Semiconductor (China) Inc.	A subsidiary of the consolidated company
Holtek Semiconductor (USA) Inc. (Holtek (USA))	A subsidiary of the consolidated company
Holtek Semiconductor (Suzhou) Inc	A subsidiary of the consolidated company
Holtek Semiconductor (INDIA) Private Ltd. (Holtek INDIA)	A subsidiary of the consolidated company
Best Solution Technology Inc. (Best Solution)	A subsidiary of the consolidated company
Best Solution Electronics Inc. (Best Solution)	A subsidiary of the consolidated company
Best Modules Corp. (Best Modules)	A subsidiary of the consolidated company
BestComm RF Electronics Inc. (BestComm)	A subsidiary of the consolidated company
BestComm RF Electronics (BVI) Inc. (BestComm BVI)	A subsidiary of the consolidated company
BestComm RF Electronics (Dongguan) Inc.	A subsidiary of the consolidated company
Crown Rich Technology Holding Ltd. (CROWN RICH)	An associate of the Company
Fine Chip Electronics Inc. (FINE CHIP)	An associate of the Company
ForIC Electronics Holding Ltd. (FORIC)	An associate of the Company
JXY Electronics Corporation (JXY)	An associate of the Company
New Wave Electronics Holding Ltd. (NEW WAVE)	An associate of the Company
Newtek Electronics Ltd. (NEWTEK)	An associate of the Company

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

Name of related parties	Relationship with the Company
Quanding Technology Holding Ltd. (QUANDING)	An associate of the Company
Santek Holdings Ltd. (SANTEK)	An associate of the Company
Truetek Technology Ltd. (TRUETEK)	An associate of the Company
Bestway Electronic Inc. (BESTWAY)	An associate of the Company
Signal Electronic Co., Ltd. (SIGNAL)	An associate of the Company
Tech Wave Ltd. (TECH WAVE)	An associate of the Company
ETEK technology company Ltd. (ETEK)	An associate of the Company
Gosan Technology Co., Ltd (GOSAN)	An associate of the Company
EST Technology Integration Corp. (EST)	An associate of the Company

(2) Significant related-party transactions

A. Sales

The amounts of significant sales by the Company to related parties were as follows:

	For the year ended December 31,	
	2018	2017
HOLTEK(BVI)	\$ 784,925	725,672
SIGNAL and its subsidiary	512,531	432,002
Best Solution and its subsidiary	455,152	380,298
Others	1,601,100	1,576,916
	\$ 3,353,708	3,114,888

The Company will determine sales price by product type specification, and offer different discount according to the selling quantity. The credit terms for sales transactions for related parties ranged from 60 to 90 days. While the credit term for routine sales transactions, which are usually based on the experiences and the result form credit evaluation, can be varied from advance payment, T/T on demand, or 30 to 60 days on open account.

As for the years ended December 31, 2018 and 2017, the Company recognized unrealized gross profits of sales to associates amounting to \$172,043 and \$138,115 respectively.

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

The receivables from related parties were as follows:

	December 31,	
	2018	2017
HOLTEK(BVI)	\$ 220,903	216,424
SIGNAL and its subsidiary	96,514	92,435
Best Solution and its subsidiary	93,263	67,292
Others	255,857	308,362
	<u>\$ 666,537</u>	<u>684,513</u>

B. Purchases

The amounts of significant purchases by the Company from related parties were as follows:

	For the year ended December 31,	
	2018	2017
Subsidiaries	\$ 9,447	11,349
Associates	-	584
	<u>\$ 9,447</u>	<u>11,933</u>

The terms and pricing of purchase transactions with related parties were not significantly different from those offered by other vendors.

The Company has paid to the related parties for consumables, miscellaneous purchase, and sales service of integrated circuit as follows

	For the year ended December 31,	
	2018	2017
Subsidiaries	\$ 15,584	\$ 18,884
Associates	13	492
	<u>\$ 15,597</u>	<u>\$ 19,376</u>

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

The payables to related parties were as follows:

	December 31,	
	2018	2017
Accounts payable to related parties -Subsidiaries	\$ 4,816	\$ 7,331
Other account payable-Associates (recorded in Other current liabilities	17,630	-
	<u>\$ 22,446</u>	<u>\$ 7,331</u>

C. Other transactions

As of December 31, 2018 and 2017, the Company recognized unrealized gross profits of selling machinery and equipment to Holtek Semiconductor (Suzhou) Inc. and Holtek Semiconductor (China) Inc., amounted to \$64 and \$129 respectively.

(3) Transactions with key management personnel

Key management personnel compensation comprised:

	For the year ended December 31,	
	2018	2017
Short-term employee benefits	\$ 28,073	23,692
Post-employment benefits	432	432
	<u>\$ 28,505</u>	<u>24,124</u>

8. Pledged Assets

Assets	Purpose of Pledged	December 31,	
		2018	2017
Time deposits (recorded in other financial assets — current)	Guarantee deposits of customs duty	<u>\$ 3,612</u>	<u>3,720</u>

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

9. Significant Commitments and Contingencies

The Company has signed the contract of technical authorization with ARM Ltd. When the Company sells products which apply the promised technique, it has to pay the royalty with certain amount according to the contract.

10. Losses Due to Major Disasters: None.

11. Significant Subsequent Events: None.

12. Other

The following is the summary statement of current-period employee benefits, depreciation, and amortization expenses by function:

By item	By function For the year ended December 31, 2018			For the year ended December 31, 2017		
	Classified as operating costs	Classified as operating expenses	Total	Classified as operating costs	Classified as operating expenses	Total
Employee benefits						
Salaries	30,468	569,315	599,783	31,114	541,973	573,087
Labor and health insurance	2,227	34,307	36,534	2,235	32,216	34,451
Directors	1,595	22,615	24,210	1,475	20,411	21,886
Pensions	-	14,138	14,138	-	12,176	12,176
Others	1,430	16,942	18,372	1,398	16,383	17,781
Depreciation	2,753	30,494	33,247	4,894	28,065	32,959
Amortization	-	54,186	54,186	-	69,433	69,433

The number of employees of the Company at the end of the year 2018 and 2017 was 407 and 401, respectively, which is inclusive the number of directors who were not holding as a position of employee was 4 and 4, respectively.

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

13. Other disclosures

(1) 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	FSITC Taiwan Money Market	-	Financial assets measured at fair value through profit or loss — current	13,545	206,914	-	206,914	
The Company	UPAMC James Bond Money Market Fund	-	Financial assets measured at fair value through profit or loss — current	16,550	276,151	-	276,151	
The Company	Yuanta De-Bao Money Market Fund	-	Financial assets measured at fair value through profit or loss — current	291	3,490	-	3,490	
Holtek Semiconductor Holding (BVI) Ltd.	Unitech Capital Inc.	-	Equity-investments measured at fair value through other comprehensive income-non current	2,500	60,848	5.00%	-	
Holtek Investment Co., Ltd	Shieh Yong Investment Co., Ltd.	-	Equity-investments measured at fair value through other comprehensive income-non current	23,124	161,110	3.03%	-	
Holtek Investment Co., Ltd	Gingy Technology Co.	-	Equity-investments measured at fair value through other comprehensive income-non current	3,330	43,203	13.59%	-	

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

iv. Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock:

Name of company	Category and name of security	Account name	Name of counter-party	Relationship with the company	Beginning Balance		Purchases		Sales				Ending Balance	
					Shares	Amount	Shares	Amount	Shares	Price	Cost	Gain (loss) on disposal	Shares	Amount
The Company	UPAMC James Bond Money Market Fund	Financial assets measured at fair value through profit or loss — current	UPAMC	-	6,342	105,208	36,738	611,500	26,530	441,890	441,232	658	16,550	275,476 (Note)

Note : The ending balance is the acquisition cost. Please refer to iii. for the carrying amount evaluated by market price.

v. Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None.

vi. Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None.

vii. Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:

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	Holtek BVI	Subsidiary of the Company	Sales	(784,925)	(18) %	Open account 90 days	No significant difference	No significant difference	220,903	29%	Note
Holtek BVI	The Company	Parent company of Holtek BVI	Purchases	784,925	100 %	Open account 90 days	No significant difference	No significant difference	(220,903)	(99)%	Note
The Company	Signal	Investee of the Company's subsidiary evaluated under the equity method	Sales	(512,531)	(12) %	Open account 60 days	No significant difference	No significant difference	96,514	13%	
Signal	The Company	Investee that evaluate Signal under equity method	Purchases	512,531	57 %	Open account 60 days	No significant difference	No significant difference	(96,514)	(66)%	
The Company	Best Solution Technology Inc.	Subsidiary of the Company	Sales	(455,152)	(10) %	Open account 60 days	No significant difference	No significant difference	93,263	12%	Note
Best Solution Technology Inc.	The Company	Parent company of Best Solution Technology Inc.	Purchases	455,152	100 %	Open account 60 days	No significant difference	No significant difference	(93,263)	(100)%	Note
The Company	ForIC	Investee of the Company's subsidiary evaluated under the equity method	Sales	(127,791)	(3) %	Open account 60 days	No significant difference	No significant difference	16,519	2%	
ForIC	The Company	Investee that evaluate ForIC	Purchases	127,791	66 %	Open account 60 days	No significant difference	No significant difference	(16,519)	(36)%	

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

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)	
		under equity method									
The Company	Newtek	Investee of the Company's subsidiary evaluated under the equity method	Sales	(246,166)	(6) %	Open account 60 days	No significant difference	No significant difference	32,506	4%	
Newtek	The Company	Investee that evaluate Newtek under equity method	Purchases	246,166	59 %	Open account 60 days	No significant difference	No significant difference	(32,506)	(40)%	
The Company	Crown Rich	Investee of the Company's subsidiary evaluated under the equity method	Sales	(233,591)	(5) %	Open account 60 days	No significant difference	No significant difference	32,052	4%	
Crown Rich	The Company	Investee that evaluate Crown Rich under equity method	Purchases	233,591	36 %	Open account 60 days	No significant difference	No significant difference	(32,052)	(22)%	
The Company	EST	Investee of the Company's subsidiary evaluated under the equity method	Sales	(148,581)	(3) %	Open account 60 days	No significant difference	No significant difference	23,260	3%	
EST	The Company	Investee that evaluate EST under equity method	Purchases	148,581	7 %	Open account 60 days	No significant difference	No significant difference	(23,260)	(12)%	
The Company	New Wave	Investee of the Company's subsidiary evaluated under the equity method	Sales	(228,132)	(5) %	Open account 60 days	No significant difference	No significant difference	31,865	4%	
New Wave	The Company	Investee that evaluate New Wave under equity method	Purchases	228,132	51 %	Open account 60 days	No significant difference	No significant difference	(31,865)	(39)%	
The Company	Truetek	Investee of the Company's subsidiary evaluated under the equity method	Sales	(153,335)	(4) %	Open account 60 days	No significant difference	No significant difference	23,984	3%	
Truetek	The Company	Investee that evaluate Truetek under equity method	Purchases	153,335	41 %	Open account 60 days	No significant difference	No significant difference	(23,984)	(27)%	
The Company	Santek	Investee of the Company's subsidiary evaluated under the equity method	Sales	(155,310)	(4) %	Open account 60 days	No significant difference	No significant difference	47,820	6%	
Santek	The Company	Investee that evaluate Santek under equity method	Purchases	155,310	78 %	Open account 60 days	No significant difference	No significant difference	(47,820)	(78)%	

Note : The relevant transactions and ending balance are eliminated in comprehensive financial reports.

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

viii. Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of capital stock:

(In Thousands of New Taiwan Dollars)

Name of company	Related party	Nature of relationship	Ending balance	Turnover days	Overdue		Amounts received in subsequent period	Allowance for bad debts
					Amount	Action taken		
The Company	Holtek BVI	Subsidiary	220,903 (Note2)	3.59	-	Collection on demand	37,715 (Note 1)	-

Note1 : The amount is collected by January 18, 2019.

Note2 : The relevant transactions and ending balance are eliminated in comprehensive financial reports.

ix. Trading in derivative instruments: None.

(2) Information on investees:

The following is the information on investees for the year 2018 (excluding information on investees in Mainland China):

Investor Company	Investee Company	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	Percentage of ownership	Carrying value			
The Company	Holtek Semiconductor Holding (BVI) Ltd.	B.V.I.	Overseas investment activities	475,831	475,831	15,253	100.00%	524,475	43,268	43,268 Note2	The Company's Subsidiary
The Company	Kingtek Semiconductor Holding (BVI) Ltd.	B.V.I.	Overseas investment activities	69,542	69,542	2,000	100.00%	120,725	1,632	1,632 Note2	The Company's Subsidiary
The Company	Sigmos Holdings Ltd.	B.V.I.	Overseas investment activities	6,898	6,898	200	100.00%	22,811	231	231 Note2	The Company's Subsidiary
Sigmos Holdings Ltd.	Holtek Semiconductor (USA) Inc.	California, USA	Sales of integrated circuits and technical services	6,898	6,898	2,000	100.00%	22,811	231	Note1、2	The Company's second-tier subsidiary
The Company	MCU Holdings Ltd.	B.V.I.	Overseas investment activities	16,333	16,333	500	100.00%	650,461	106,251	106,251 Note2	The Company's Subsidiary
MCU Holdings Ltd.	ForIC Electronics Holding Ltd.	B.V.I.	Sales of integrated circuits and technical services	9,733	9,733	300	40.00%	23,302	3,025	Note1	The Subsidiary's investee company by equity method

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

Investor Company	Investee Company	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	Percentage of ownership	Carrying value			
ForIC Electronics Holding Ltd.	E-Micro Technology Holding Ltd. (BVI)	B.V.I.	Sales of integrated circuits and technical services	9,473	9,473	300	100.00%	10,084	1,641	Note1	The Subsidiary's investee company by equity method invest subsidiary
MCU Holdings Ltd.	Truetek Technology Ltd.	B.V.I.	Sales of integrated circuits and technical services	16,306	16,306	920	40.00%	49,594	26,880	Note1	The Subsidiary's investee company by equity method
MCU Holdings Ltd.	Quanding Technology Holding Ltd.	B.V.I.	Sales of integrated circuits and technical services	1,868	1,868	60	40.00%	18,746	14,777	Note1	The Subsidiary's investee company by equity method
MCU Holdings Ltd.	Santek Holdings Ltd.	B.V.I.	Sales of integrated circuits and technical services	3,758	3,758	180	40.00%	22,651	23,354	Note1	The Subsidiary's investee company by equity method
MCU Holdings Ltd.	Bestway Electronic Inc.	B.V.I.	Sales of integrated circuits and technical services	3,470	3,470	800	40.00%	22,696	11,249	Note1	The Subsidiary's investee company by equity method
MCU Holdings Ltd.	New Wave Electronics Holding Ltd.	B.V.I.	Sales of integrated circuits and technical services	24,784	24,784	800	40.00%	67,736	36,491	Note1	The Subsidiary's investee company by equity method
MCU Holdings Ltd.	Newtek Electronics Ltd.	B.V.I.	Sales of integrated circuits and technical services	8,105	8,105	1,501	40.61%	68,739	32,072	Note1	The Subsidiary's investee company by equity method
MCU Holdings Ltd.	Crown Rich Technology Holding Ltd.	B.V.I.	Sales of integrated circuits and technical services	2,641	2,641	80	40.00%	61,590	49,270	Note1	The Subsidiary's investee company by equity method
MCU Holdings Ltd.	Fine Chip Electronics Inc.	B.V.I.	Sales of integrated circuits and technical services	7,039	7,039	1	40.00%	2,371	(2,960)	Note1	The Subsidiary's investee company by equity method
MCU Holdings Ltd.	Anchip Technology Corporation	B.V.I.	Sales of integrated circuits and technical services	2,937	2,937	1	60.00%	2,522	1,438	Note1,2	The Company's second-tier subsidiary
MCU Holdings Ltd.	Tech Wave Ltd.	Hong Kong	Sales of integrated circuits and technical services	9,907	9,907	2,400	40.00%	18,452	4,072	Note1	The Subsidiary's investee company by equity method
MCU Holdings Ltd.	ETEK technology company Ltd.	Hong Kong	Sales of integrated circuits and technical services	5,427	5,427	1,275	33.33%	8,144	1,015	Note1	The Subsidiary's investee company by equity method
MCU Holdings Ltd.	JXY Electronics Corporation	B.V.I.	Sales of integrated circuits and technical services	3,664	3,664	1	40.00%	3,268	934	Note1	The Subsidiary's investee company by equity method
MCU Holdings Ltd.	Best Health Electronics Corporation	B.V.I.	Sales of integrated circuits and technical services	20,965	20,965	5	80.00%	22,669	1,755	Note1,2	The Company's second-tier subsidiary

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

Investor Company	Investee Company	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	Percentage of ownership	Carrying value			
MCU Holdings Ltd.	Best Power Electronics Corporation	B.V.I.	Sales of integrated circuits and technical services	8,844	-	2	100.00%	8,940	(48)	Note 1、2	The Company's second-tier subsidiary
The Company	Holtek Semiconductor (India) Private Limited	INDIA	Sales of integrated circuits and technical services	3	-	6	0.10%	2	(1,186)	(1) Note 2	The Company's second-tier subsidiary
The Company	Holtek Investment Co., Ltd.	Hsinchu City	Domestic investment activities	429,826	400,000	42,983	100.00%	490,773	19,229	19,229 Note2	The Company's Subsidiary
Holtek Investment Co., Ltd.	Signal Electronic Co., Ltd.	Taipei City	Sales of integrated circuits and technical services	95,940	89,140	7,880	40.00%	116,854	26,731	Note1	The Subsidiary's investee company by equity method
Signal Electronic Co. Ltd.	A-ONE Wireless Technology Corp.	B.V.I.	Sales of integrated circuits and technical services	59,204	59,204	2,000	100.00%	90,082	10,674	Note1	The Subsidiary's investee company by equity method invest subsidiary
Signal Electronic Co. Ltd.	Innotek Electronics Inc.	B.V.I.	Sales of integrated circuits and technical services	43,810	43,810	800	100.00%	41,289	8,737	Note1	The Subsidiary's investee company by equity method invest subsidiary
Signal Electronic Co. Ltd.	Best Solution Technology Inc.	Taipei City	Sales of integrated circuits and technical services	7,375	7,375	738	36.88%	14,326	12,044	Note1	The Company's second-tier subsidiary
Holtek Investment Co., Ltd.	EST Technology Integration Corp.	New Taipei City	Sales of integrated circuits and technical services	37,500	37,500	5,641	22.39%	69,322	24,750	Note1	The Subsidiary's investee company by equity method
Holtek Investment Co., Ltd.	Gosan Technology Co., Ltd	New Taipei City	Sales of integrated circuits and technical services	2,350	2,350	235	39.17%	2,821	1,555	Note1	The Subsidiary's investee company by equity method
Holtek Investment Co., Ltd.	Best Solution Technology Inc.	Taipei City	Sales of integrated circuits and technical services	8,000	8,000	800	40.00%	15,540	12,044	Note1,2	The Company's second-tier subsidiary
Best Solution Technology Inc.	Best Solution Electronics Inc.	B.V.I.	Sales of integrated circuits and technical services	6,140	6,140	200	100.00%	40,543	15,636	Note1,2	The Company's third-tier subsidiary

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

Investor Company	Investee Company	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	Percentage of ownership	Carrying value			
Holtek Investment Co., Ltd.	TANGENT Microelectromechanics Corp.	Hsinchu City	Electronic component manufacturing, electronic materials wholesale and retail, telecommunication equipment wholesale and retail, intellectual property rights, information service and international trade	10,002	10,002	380	20.00%	-	611	Note1	The Subsidiary's investee company by equity method
Holtek Investment Co., Ltd.	BestComm RF Electronics Inc.	Hsinchu City	Sales of integrated circuits and technical services	40,000	40,000	4,000	100.00%	21,662	(3,356)	Note1,2	The Company's second-tier subsidiary
BestComm RF Electronics Inc.	BestComm RF Electronics (BVI) Inc.	B.V.I.	Sales of integrated circuits and technical services	14,054	14,054	30	100.00%	10,788	434	Note1,2	The Company's third-tier subsidiary
Holtek Investment Co., Ltd.	Best Modules Corp.	Hsinchu City	Electronic component manufacturing, electronic materials wholesale and retail, retail trade not in stores or stalls, and international trade	10,000	10,000	1,000	100.00%	9,895	(41)	Note1,2	The Company's second-tier subsidiary
Holtek Investment Co., Ltd.	Holtek Semiconductor (India) Private Limited	INDIA	Sales of integrated circuits and technical services	2,945	-	6,479	99.90%	1,654	(1,186)	Note1,2	The Company's second-tier subsidiary

Note1: The share of profits/losses of the investee company is already included in the share of profits/losses of the investor company.

Note2: The relevant transactions and ending balance are eliminated in comprehensive financial reports.

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

(3) Information on investment in mainland China:

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

Name of investee	Main businesses and products	Total amount of capital surplus	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	Gains (losses) on investments (Note 5)	Book value	Accumulated remittance of earnings in current period
					Out-flow	Inflow						
Holtek Semiconductor (Xiamen) Inc	Sales of integrated circuits and technical services	113,551	(Note1)	101,027	-	-	101,027	531	100%	531	113,289	-
Holtek Semiconductor (China) Inc.	Sales of integrated circuits and technical services	292,423	(Note1)	272,221	-	-	272,221	35,312	100%	35,312	326,434	-
Bestway Electronics (Shenzhen) Inc.	Sales of integrated circuits and technical services	6,769	(Note1)	3,383	-	-	3,383	3,483	40%	1,393	17,940	-
Santek Electronics (Xiamen) Ltd.	Sales of integrated circuits and technical services	6,398	(Note1)	2,506	-	-	2,506	1,171	40%	468	19,773	-
New Wave Electronics (Shenzhen) Ltd.	Sales of integrated circuits and technical services	9,287	(Note1)	3,928	-	-	3,928	7,893	40%	3,157	22,146	-
Forle Electronics (Beijing) Ltd.	Sales of integrated circuits and technical services	19,361	(Note1)	3,601	-	-	3,601	(6,091)	40%	(2,436)	16,106	-
E-Micro Technology (Qingdao) Ltd.	Sales of integrated circuits and technical services	6,315	(Note1)	2,634	-	-	2,634	633	40%	253	6,647	-
Newtek Electronics (Shenzhen) Ltd	Sales of integrated circuits and technical services	6,699	(Note1)	2,647	-	-	2,647	6,179	40.61%	2,509	29,383	-
Truetek Technology (Shanghai) Ltd.	Sales of integrated circuits and technical services	30,293	(Note1)	3,911	-	-	3,911	5,786	40%	2,314	48,358	-
Crown Rich Technology (Shenzhen) Ltd.	Sales of integrated circuits and technical services	4,952	(Note1)	1,964	-	-	1,964	27,034	40%	10,814	60,116	-
Quanding Technology (Suzhou) Ltd.	Sales of integrated circuits and technical services	3,736	(Note1)	1,600	-	-	1,600	2,236	40%	894	18,345	-
Holtek Semiconductor (Suzhou) Inc.	Sales of integrated circuits and technical services	69,712	(Note1)	69,712	-	-	69,712	1,630	100%	1,630	120,685	-
Fine Chip Electronics (Shanghai) Inc.	Sales of integrated circuits and technical services	7,541	(Note1)	-	-	-	-	(1,197)	40%	(479)	2,836	-
Anchip Technology (Shenzhen) Corporation	Sales of integrated circuits and technical services	1,521	(Note1)	-	-	-	-	(647)	60%	(388)	641	-
JXY Electronics (Shenzhen) Corporation	Sales of integrated circuits and technical services	6,843	(Note1)	-	-	-	-	(2,287)	40%	(915)	4,407	-
Best Health Electronics (Dongguan) Corporation	Sales of integrated circuits and technical services	23,057	(Note1)	-	-	-	-	(5,930)	80%	(4,744)	15,110	-
BestComm RF Electronics (Dongguan)	Sales of integrated circuits and technical services	9,214	(Note1)	-	9,392	-	9,392	(2,574)	100%	(2,574)	6,351	-

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

Name of investee	Main businesses and products	Total amount of capital surplus	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	Gains (losses) on investments (Note 5)	Book value	Accumulated remittance of earnings in current period
					Out-flow	Inflow						
Inc.												

ii. Limit of investments in Mainland China:

Accumulated Investment in Mainland China as of December 31, 2018 (Note2)	Investment Amounts Authorized by Investment Commission, MOEA (Note3)	Upper Limit on Investment
480,481 (US\$15,425 in thousands)	547,438 (US\$17,853 in thousands)	2,519,502 (Note4)

Note1 : Investment in companies in Mainland China through the existing companies in the third regions.

Note2 : Accumulated investments in Mainland China are calculated in NTD using exchange rate on the remitting date. Including Bestcomm accumulated remittances from Taiwan for \$9,392 (US\$314 in thousands)

Note3 : Investment amounts authorized by Investment Commission, MOEA are calculated in NTD using exchange rate on the reporting date. Including accumulated remittances from Taiwan for \$461,620 (US\$15,054 in thousands) ; and from the third regions for \$76,205 (US\$2,485 in thousands) and Bestcomm accumulated remittances from Taiwan for \$9,613 (US\$314 in thousands).

Note4: According to "Principle of investment or Technical Cooperation in Mainland China", the Company's accumulated investments in Mainland China do not exceed the maximum limit of investment. Net value \$4,199,170 x 60% = \$2,519,502; and Bestcomm net value \$21,662 x 60% = \$12,997.

Note5 : The financial statements of the Company were audited by the auditors.

iii. Significant transactions

The significant intercompany transactions with the subsidiaries in Mainland China, which were eliminated in the preparation of consolidated financial statements, are disclosed in the Company please refer to *Information on significant transactions* for further information.

14. Segment Information

Please refer to consolidated financial statements for the year ended December 31, 2018.

VII. Review of Financial Conditions, Financial Performance, and Risk Management

7.1 Financial Status

Unit: NT\$ thousands

Item \ Year	2017.12.31	2018.12.31	Difference	
			Amount	%
Current Assets	4,179,054	4,322,111	143,057	3
Property, Plant and Equipment	414,729	398,515	(16,214)	(4)
Other Assets	770,487	834,874	64,387	8
Total Assets	5,364,270	5,555,500	191,230	4
Current Liabilities	1,068,788	1,079,483	10,695	1
Non-current Liabilities	196,636	251,918	55,282	28
Total Liabilities	1,265,424	1,331,401	65,977	5
Ordinary share capital	2,261,682	2,261,682	0	0
Capital surplus	142,309	142,309	0	0
Retained Earnings	1,699,004	1,832,565	133,561	8
Total Equity	4,098,846	4,224,099	125,253	3
Analysis of changes in financial ratios:				
(1)The non-current liabilities increase due to the increase of the deferred tax liabilities.				

7.2 Analysis of Operating Results

Unit: NT\$ thousands

Item \ Year	2017	2018	Difference	
			Amount	%
Net operating revenue	4,614,917	4,862,807	247,890	5.37
Operating costs	2,425,457	2,455,833	30,376	1.25
Gross profit	2,189,460	2,406,974	217,514	9.93
Unrealized profit (loss) from sales	27,374	12,624	(14,750)	(53.88)
Realized gross profit	2,162,086	2,394,350	232,264	10.74
Operating expenses	1,218,775	1,283,620	64,845	5.32
Net operating income	943,311	1,110,730	167,419	17.75
Non-operating income and expenses	126,479	134,859	8,380	6.63
Income before income tax	1,069,790	1,245,589	175,799	16.43
Income tax expenses	(133,803)	(175,223)	(41,420)	30.96
Net income	935,987	1,070,366	134,379	14.36
Other comprehensive income (net of income tax)	(11,703)	(76,197)	(64,494)	551.09
Total comprehensive income	924,284	994,169	69,885	7.56
Total comprehensive income profit (loss) attributable to shareholders of the company	926,188	1,063,990	137,802	14.88
Total comprehensive income profit (loss) attributable to non-controlling interests	9,799	6,376	(3,423)	(34.93)
Total comprehensive income (loss) attributable to shareholders of the company	914,470	987,931	73,461	8.03
Total comprehensive income (loss) attributable to non-controlling interests	9,814	6,238	(3,576)	(36.44)
Analysis of changes in financial ratios:				
(1) Decrease of unrealized profit (loss) from sales among affiliated companies: Decrease in the unrealized profit (loss) from sales among affiliated companies illustrated that products has been delivered to the re-invested companies, but products was on the way to the end customers.				
(2) Increase of income tax expenses: Increase of income before income tax and income tax rate.				
(3) Increase of other comprehensive income: Increase of unrealized loss on equity instruments measured at fair value.				

7.3 Analysis of Cash Flow

7.3.1 Cash Flow Analysis for the Current Year

Unit: NT\$ thousands

Cash and Cash Equivalents, Beginning of Year	Net Cash Flow from Operating Activities	Net Cash flow from fund-raising	Cash Surplus (Deficit)	Leverage of Cash Deficit	
				Investment Plan	Financing Plan
1,391,728	1,230,452	(1,104,548)	1,517,632	—	—
Analysis of change in cash flow in 2018: (1)Operating activities: The Company continues to make profits which result in net cash inflows from operating activities. (2)Investing activities: The deposit over three months increases which results in the net cash outflows from investing activities. (3)Financing activities: Paying cash dividends to shareholders which results in net cash outflows from financing activities.					

7.3.2 Cash Flow Analysis for the Coming Year

Unit: NT\$ thousands

Cash and Cash Equivalents, Beginning of Year	Net Cash Flow from Operating Activities	Net Cash flow from fund-raising	Cash Surplus (Deficit)	Leverage of Cash Deficit	
				Investment Plan	Financing Plan
1,517,632	1,250,000	(1,150,000)	1,617,632	—	—
Analysis of change in cash flow in 2019: (1)Operating activities: The net cash inflow of operating activities is due to the expected continuous growth of operation and increased profit. (2)Financing activities: This refers mainly to the increase of expected cash dividend distributed from unappropriated retained earnings, resulting in the net cash outflow of financing activities.					

7.4 Impact of the Latest Major Capital Expenditures on Financial Business: None.

7.5 Main Reasons for Profits or Losses of Latest Reinvestment Policy, Improvement Plan, and Investment Plan for the Coming Year

Investment is mainly to meet the needs of the company's operation and development to establish a complete sales and technical service system. The net investment income recognized by the equity method in 2018 is NT\$97,105 thousand. Please refer to the notes 13 (2) in Page186~189 of the financial report.

1. The profit or loss of the reinvested company is mainly related to the amount of revenue. The Company will work to improve the revenue growth of the reinvested company and control the cost to improve its profitability.
2. Future investment plans are still based on business development needs and evaluate various investment plans at the appropriate time.

7.6 Risk Management Analysis

7.6.1 Effects of Changes in Interest Rates, Foreign Exchange Rates and Inflation on Corporate Finances and Future Response Measures

1. Interest rate: The impact of interest rate fluctuation does not currently have a significant impact on the Company's profits and business operations. The cash equivalent position of the Company is mainly located in fixed deposits and bond funds and the financial institutions that the Company deals with have global records and capital so as to obtain stable and safe investment returns.
2. Foreign exchange rates: In order to avoid the significant impact of foreign exchange rate fluctuations on the Company's revenue and profit, the Company has a designated finance department to monitor exchange rate movements in the foreign exchange market, to collect relevant information and to take the following specific measures:
 - (1) The Sales Division will carefully evaluate foreign exchange rate trends before offering customer quotes. It will also comprehensively consider the factors affecting exchange rate fluctuations and adopt a market-based exchange rate as the basis of sales quotation so as to reduce the impact of spot exchange rate changes on the Company's revenues and profits.
 - (2) In addition to remaining in close contact with banks and financial institutions in order to fully follow foreign exchange rate trends, the finance department will regularly review their operating strategies and risk control procedures to be able to respond to forex volatility. The Company uses foreign currency derivative contracts such as currency forwards to protect against currency exchange rate risks associated with non-NT dollar denominated currency positions.
 - (3) In adjusting to their foreign currency position according to the actual capital demand or exchange rate trends, the Company takes revenues to pay accounts payable using the same currency from multiple foreign currency accounts. This acts as a natural hedge, which is a principle of the Company's exchange strategy.
3. Inflation: The impact of inflation does not currently have a significant impact on the Company's profits and business operations.

7.6.2 Policies, Main Causes of Gain or Loss and Future Response Measures with Respect to High-risk, High-leveraged Investments, Lending Funds to Other Parties, Endorsements/Guarantees, and Financial Derivatives Transactions

1. The Company did not engage in high-risk, high-leveraged investments, lending funds to other parties, Endorsements/Guarantees in the previous year. If required, financial derivatives transactions are mainly done to avoid the risk of exchange rate fluctuations of foreign currency deposits, foreign currency receivables and accounts payable. Therefore, the Company executes proper hedging strategies and other capital markets financing instruments to ensure that their financing costs are at a comparatively low level.
2. The Company has created “Procedures for Lending Funds to Other Parties”, the “Procedures for Endorsements/Guarantees”, and “Procedures for Acquisition or Disposal of Assets and Financial Derivatives Transactions”. A department has been assigned to execute operating procedures and risk management in accordance with the aforementioned procedures for which no significant loss has occurred.

7.6.3 Future Research & Development Projects and Corresponding Budget

The Company is focused in the area of MCU and peripheral ICs, which are used in the home appliances, health measurement, securities & safety protection, computer peripheral, industrial control, automotive electronics, instrument display, etc. application areas. To increase their product competitiveness, the Company consistently re-invests 15%~20% of annual turnover in improving its R&D technology and remains close to customer market demands. It also works in close coordination with upstream and downstream manufacturers to meet customers' delivery requirements and maintain the stability of both supply and delivery.

7.6.4 Effects of and Response to Changes in Policies and Regulations Relating to Corporate Finance and Sales

The Company consistently monitors any changes in local and foreign policies and makes appropriate amendments to our systems when necessary. During 2018 and as of the date of publication of this annual report, changes in related laws have not had a significant impact on our operations.

7.6.5 Effects of and Response to Changes in Technology and in Industry Relating to Corporate Finance and Sales

In facing the challenge of continuous semiconductor industry technology improvements, the Company not only invests in designing niche products in various applications but also focuses on cooperating with upstream manufacturers in response to technological changes and industrial innovations.

7.6.6 The Impact of Changes in Corporate Image on Corporate Risk Management, and the Company's Response Measures

The Company retains a prudent business philosophy and maintains its existing good corporate brand image. Also, the strict internal control and crisis management mechanism has been regulated to effectively prevent any crisis from occurring to ensure the sustainable operation of the Company.

7.6.7 Expected Benefits from, Risks Relating to and Response to Merger and Acquisition Plans

Not Applicable.

7.6.8 Expected Benefits from, Risks Relating to and Response to Factory Expansion Plans

Not Applicable.

7.6.9 Risks Relating to and Response to Excessive Concentration of Purchasing Sources and Excessive Customer Concentration

1. The Company has been in excellent operating condition since its establishment in 1998. Fabs collaborated with the Company have always provided priority giving adequate capacity during times of large scale operations. In addition, when considering risk reduction associated with any consolidation of sales or purchasing operations and considering the comprehensive factors such as production capacity, process technology, quality yield and delivery date, the Company also actively looks for alternative fab production capacity. Currently, the Company cooperates with several large fabs, packaging and testing companies. There is no over-concentration in one particular area.
2. The Company has been actively expanding niche markets for many years. Here the customer base is spread over all major global markets, including China, to fully achieve risk diversification and avoid the risk of excessive concentration of sales. In addition, the Company will strengthen credit management, require the provision of corresponding collateral, and continuously track the collection of accounts, so as to maintain stable business results.

7.6.10 Effects of, Risks Relating to and Response to Large Share Transfers or Changes in Shareholdings by Directors or Shareholders with Shareholdings of over 10%

None

7.6.11 Effects of, Risks Relating to and Response to the Changes in Management Rights

None

7.6.12 Major Law Suits, Non-Contentious Matters, or Administrative Actions involving the Directors, general manager, owners, shareholders that hold more than 10% of the equity shares, with sentence or pending on court decision, the result of which may significantly affect the shareholders' equity or stock price of the Company, the action taken in response to the aforementioned disputes, the target amount involved, the date on which the law suit started, the parties concerned, and the status as of the day this report was printed

None

7.6.13 Other Major Risks

The Total Information System Division is responsible for information security planning and regular reports to the general manager's office on the implementation of information security policies to control and maintain important operational functions such as operations and accounting, etc.

The control operations are as follows:

1. Endpoint protection: endpoint refers to PCs and server and their protection mechanisms which include:
 - (1) Antivirus software: install antivirus software on personal computers and servers to block viruses and malicious programs to prevent personnel from visiting malicious websites, phishing websites, etc.
 - (2) Maintain updates: the security vulnerability of the operating system and software is one of the root causes of information security problems. Operating systems and software will be kept updated at all times to effectively decrease vulnerability and reduce risks.
2. Network security:
 - (1) New generation firewall: in response to the increasing severity of information security challenges, traditional firewalls are insufficient to monitor illegal

communication. As a result the company has established a new generation of firewalls which are able to provide control according to all application types, offering greater security. This also includes an intrusion prevention system, which is a computer network security device that can monitor web access or e-mail transmission. This can immediately interrupt, adjust or isolate abnormal or harmful Internet communication behavior.

- (2) Web access protection: "securemail" from Chunghwa Telecom Co., Ltd. is used to screen out spam, viruses, blackmails and other e-mails.
- (3) Threat Prevention mechanism: FireEye Threat Prevention Platform is a protection solution especially designed to oppose Internet crimes and APT (advanced persistent Threat), providing automatic threat forensics and dynamic malware protection services to avoid risks due to potential threats.

3. Data protection:

- (1) Backup data: the company's important data is backed up every night using its backup systems. The backup media used is hard disk, which is faster and for which backup data is recoverable.
- (2) Remote backup: backup data is immediately saved and transferred to a remote location using the NetBackup Auto Image Replication mechanism for the network and backup systems.

4. Network system checking mechanism:

- (1) Self-detection: scan the server using vulnerability scanning software every half year to find out any server vulnerabilities and provide any required solutions.
- (2) Outsourcing testing: cooperate with security consulting companies, collect and analyse packets through the network irregularly every year, so as to ensure the security of servers within the Company. The Intranet portion is configured with Deep Discovery Advisor (DDI) to analyse any suspect Intranet behavior. If there are any security problems, the company can request assistance from the security advisory group. Experts who are familiar with APT attacks can use the detection and analysis data to identify and offer solutions.

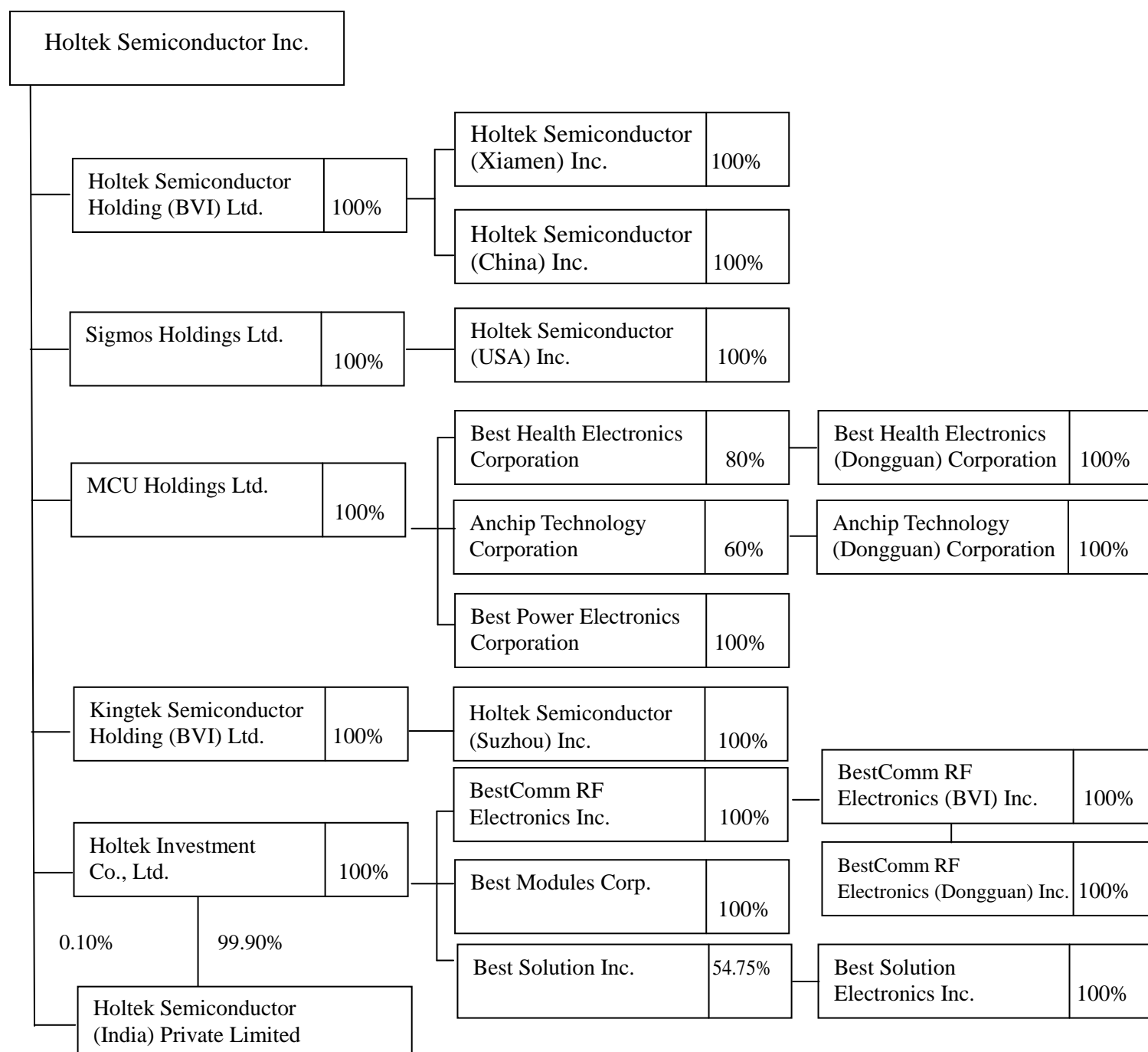
7.7 Other Material Events

None

VIII. Special Disclosure

8.1 Summary of Affiliated Companies

8.1.1 Affiliated Companies Chart



8.1.2 Profile of various associated enterprises:

As of Dec. 31, 2017

Company Name	Date of Establishment	Address	Paid-in capital size	Main scope of operations or production
Holtek Semiconductor Holding (BVI) Ltd.	1999.10	Portcullis Chambers, 4 th Floor Ellen Skelton Building, 3076 Sir Francis Drake Highway, Road Town, Tortola, British Virgin Islands	US\$15,253,360	Foreign investment activities
Sigmos Holdings Ltd.	2000.12	Portcullis Chambers, 4 th Floor Ellen Skelton Building, 3076 Sir Francis Drake Highway, Road Town, Tortola, British Virgin Islands	US\$200,000	Foreign investment activities
MCU Holdings Ltd.	2002.05	Portcullis Chambers, 4 th Floor Ellen Skelton Building, 3076 Sir Francis Drake Highway, Road Town, Tortola, British Virgin Islands	US\$500,000	Foreign investment activities
Kingtek Semiconductor Holding (BVI) Ltd.	2002.01	Portcullis Chambers, 4 th Floor Ellen Skelton Building, 3076 Sir Francis Drake Highway, Road Town, Tortola, British Virgin Islands	US\$2,000,000	Foreign investment activities
Holtek Investment Co., Ltd.	2003.03	2F., No.136, Datong Rd., East Dist., Hsinchu City 300, Taiwan (R.O.C.)	NT\$400,000,000	Investment activities
Holtek Semiconductor (Xiamen) Inc.	2008.02	Room 202, No.34, Guanri Road, Software Park (Phase 2), Xiamen, China	US\$3,500,000	Providing sales of integrated circuit and technical support.
Holtek Semiconductor (China) Inc.	2012.07	Room 101, Building No. 10, Xinzhu Court, (No. 1 Headquarters), No. 4 Xinzhu Road, Songshan Lake, Dongguan, China	US\$9,764,280	Providing sales and technical services of electronic components and integrated circuits.
Holtek Semiconductor (USA), Inc.	2001.05	19 Hammond, Suite 513, Irvine, CA 92618, USA	US\$200,000	Providing sales and technical services of electronic components and integrated circuits.
Best Health Electronics Corporation	2017.06	Portcullis Chambers, 4 th Floor Ellen Skelton Building, 3076 Sir Francis Drake Highway, Road Town, Tortola, British Virgin Islands	RMB\$6,000,000	Providing sales and technical services of electronic components and integrated circuits using in health & measurement applications.

Company Name	Date of Establishment	Address	Paid-in capital size	Main scope of operations or production
Best Health Electronics (Dongguan) Corporation	2017.09	Room 301, Building No. 10, Xinzhu Court, No. 4 Xinzhu Road, Songshan Lake, Dongguan, China	RMB\$5,000,000	Providing sales and technical services of electronic components and integrated circuits using in health & measurement applications.
Anchip Technology Corporation	2015.11	Portcullis Chambers, 4 th Floor Ellen Skelton Building, 3076 Sir Francis Drake Highway, Road Town, Tortola, British Virgin Islands	RMB\$1,000,000	Providing sales and technical services of electronic components and integrated circuits using in security & safe applications.
Anchip Technology (Dongguan) Corporation	2016.11	Room 401, Building No. 10, Xinzhu Court, No.4 Xinzhu Road, Songshan Lake, Dongguan, China	RMB\$300,000	Providing sales and technical services of electronic components and integrated circuits using in security & safe applications.
Best Power Electronics Corporation	2018.05	Portcullis Chambers, 4 th Floor Ellen Skelton Building, 3076 Sir Francis Drake Highway, Road Town, Tortola, British Virgin Islands	RMB\$2,000,000	Providing sales and technical services of electronic components and integrated circuits using in power management applications.
Holtek Semiconductor (Suzhou) Inc.	2002.04	Unit 7/8, 3F., Building D, No.5, Xinghan Street, Suzhou Industrial Park, Suzhou, China	US\$2,000,000	Providing sales and technical services of electronic components and integrated circuits.
BestComm RF Electronics Inc.	2014.01	2F., No.136, Datong Rd., East Dist., Hsinchu City 300, Taiwan (R.O.C.)	NT\$40,000,000	Providing sales and technical services of electronic components and integrated circuits using in RF related applications.

Company Name	Date of Establishment	Address	Paid-in capital size	Main scope of operations or production
BestComm RF Electronics (BVI) Inc.	2014.03	Portcullis Chambers, 4 th Floor Ellen Skelton Building, 3076 Sir Francis Drake Highway, Road Town, Tortola, British Virgin Islands	RMB\$3,000,000	Providing sales and technical services of electronic components and integrated circuits using in RF related applications.
BestComm RF Electronics (Dongguan) Inc.	2018.01	Room 201, Building No. 10, Xinzhu Court, No.4 Xinzhu Road, Songshan Lake, Dongguan, China	RMB\$2,000,000	Providing sales and technical services of electronic components and integrated circuits using in RF related applications.
Best Modules Corp.	2016.05	1F., No.18, Ln. 20, Jinshan 1st St., East Dist., Hsinchu City 300, Taiwan (R.O.C.)	NT\$10,000,000	Providing sales and technical services of MCU modules.
Best Solution Inc.	2008.05	4F.-2, No.3-2, Park St., Nangang Dist., Taipei City 115, Taiwan (R.O.C.)	NT\$20,000,000	Providing sales and technical services of electronic components and integrated circuits using in touch related applications.
Best Solution Electronics Inc.	2008.08	Portcullis Chambers, 4 th Floor Ellen Skelton Building, 3076 Sir Francis Drake Highway, Road Town, Tortola, British Virgin Islands	US\$200,000	Providing sales and technical services of electronic components and integrated circuits using in touch related applications.
Holtek Semiconductor (India) Private Limited	2018.04	1004,10 th Floor, Prestige Meridian 1, MG Road Bengaluru – 560001	INR\$6,485,000	Providing sales and technical services of electronic components and integrated circuits.

8.1.3 Common Shareholders of Holtek and its Subsidiaries or its Affiliates with Actual of Deemed Control: None

8.1.4 Business Scope of Holtek and its Affiliated Companies

The business scope of the Company and its affiliated companies includes providing sales and technical services of electronic components and integrated circuits technical support and performing foreign investment activities.

8.1.5 List of Directors and General Manager of Holtek's affiliated companies

Company Name	Title	Name or Representative	Holding Shares	
			Shares	%
Holtek Semiconductor Holding (BVI) Ltd.	Director	Holtek Semiconductor Inc. Rep.: Wu, Chi-Yung	15,253,360	100%
	Director	Holtek Semiconductor Inc. Rep.: Gau, Kuo-Tung		
Sigmos Holdings Ltd.	Director	Holtek Semiconductor Inc. Rep.: Gau, Kuo-Tung	200,000	100%
	Director	Holtek Semiconductor Inc. Rep.: Lin, Cheng-Fung		
MCU Holdings Ltd.	Director	Holtek Semiconductor Inc. Rep.: Gau, Kuo-Tung	500,000	100%
	Director	Holtek Semiconductor Inc. Rep.: Lin, Cheng-Fung		
Kingtek Semiconductor Holding (BVI) Ltd.	Director	Holtek Semiconductor Inc. Rep.: Wu, Chi-Yung	2,000,000	100%
	Director	Holtek Semiconductor Inc. Rep.: Gau, Kuo-Tung		
Holtek Investment Co., Ltd.	Chairman	Holtek Semiconductor Inc. Rep.: Wu, Chi-Yung	40,000,000	100%
	Director	Holtek Semiconductor Inc. Rep.: Gau, Kuo-Tung		
	Director	Holtek Semiconductor Inc. Rep.: Chang, Chih		
	Supervisor	Holtek Semiconductor Inc. Rep.: Liao, Ming-Tung		
Holtek Semiconductor (India) Private Limited	Director	Holtek Semiconductor Inc. Rep.: Gau, Kuo-Tung	6,485,000	100%
	Director	Holtek Semiconductor Inc. Rep.: Tsai, Jung-Tsung		
	Director	Holtek Semiconductor Inc. Rep.: Krishna Chaitanya Kamasani		
	General Manager	Tsai, Jung-Tsung	--	--

Company Name	Title	Name or Representative	Holding Shares	
			Shares	%
Holtek Semiconductor (Xiamen) Inc.	Chairman	Holtek Semiconductor Holding (BVI) Ltd. Rep.: Wu, Chi-Yung	--	100%
	Director	Holtek Semiconductor Holding (BVI) Ltd. Rep.: Gau, Kuo-Tung		
	Director	Holtek Semiconductor Holding (BVI) Ltd. Rep.: Chang, Chih		
	Supervisor	Holtek Semiconductor Holding (BVI) Ltd. Rep.: Liao, Ming-Tung		
	President	Chang, Chia-Chih	--	--
Holtek Semiconductor (China) Inc.	Chairman	Holtek Semiconductor Holding (BVI) Ltd. Rep.: Wu, Chi-Yung	--	100%
	Director	Holtek Semiconductor Holding (BVI) Ltd. Rep.: Gau, Kuo-Tung		
	Director	Holtek Semiconductor Holding (BVI) Ltd. Rep.: Tsai, Jung-Tsung		
	Supervisor	Holtek Semiconductor Holding (BVI) Ltd. Rep.: Liao, Ming-Tung		
	President	Tsai, Jung-Tsung	--	--
Holtek Semiconductor (USA), Inc.	Director	Sigmos Holdings Ltd. Rep.: Gau, Kuo-Tung	2,000,000	100%
	Director	Sigmos Holdings Ltd. Rep.: Tsai, Jung-Tsung		
	President	Jack Wang	--	--
Best Health Electronics Corporation	Director	MCU Holdings Ltd. Rep.: Lin, Cheng-Fung	4,800	80%
	Director	MCU Holdings Ltd. Rep.: Wang, Min-Kun		
Anchip Technology Corporation	Director	MCU Holdings Ltd. Rep.: Wang, Min-Kun	600	60%
	Director	MCU Holdings Ltd. Rep.: Chou, Ling-Na		

Company Name	Title	Name or Representative	Holding Shares	
			Shares	%
	Director	Mao Qiang	400	40%
Best Health Electronics (Dongguan) Corporation	Chairman	Best Health Electronics Corporation Rep.: Hung, Hsiang-Wei	--	100%
	Director	Best Health Electronics Corporation Rep.: Gau, Kuo-Tung		
	Director	Best Health Electronics Corporation Rep.: Wang, Min-Kun		
	Supervisor	Best Health Electronics Corporation Rep.: Liao, Ming-Tung		
	General Manager	Hung, Hsiang-Wei	--	--
Anchip Technology (Dongguan) Corporation	Chairman	Anchip Technology Corporation Rep.: Mao Qiang	--	100%
	Director	Anchip Technology Corporation Rep.: Wang, Min-Kun		
	Director	Anchip Technology Corporation Rep.: Chou, Ling-Na		
	Supervisor	Anchip Technology Corporation Rep.: Liao, Ming-Tung		
	General Manager	Mao Qiang	--	--
Best Power Electronics Corporation	Director	MCU Holdings Ltd. Rep.: Lin, Cheng-Fung	2,000	100%
	Director	MCU Holdings Ltd. Rep.: Wang, Min-Kun		
Holtek Semiconductor (Suzhou) Inc.	Chairman	Kingtek Semiconductor Holding (BVI) Ltd. Rep.: Wu, Chi-Yung	--	100%
	Director	Kingtek Semiconductor Holding (BVI) Ltd. Rep.: Gau, Kuo-Tung		
	Director	Kingtek Semiconductor Holding (BVI) Ltd. Rep.: Chang, Chih		

Company Name	Title	Name or Representative	Holding Shares	
			Shares	%
	Supervisor	Kingtek Semiconductor Holding (BVI) Ltd. Rep.: Liao, Ming-Tung		
	General Manager	Gau, Kuo-Tung	--	--
BestComm RF Electronics Inc.	Chairman	Holtek Investment Co., Ltd. Rep.: Wu, Chi-Yung	4,000,000	100%
	Director	Holtek Investment Co., Ltd. Rep.: Gau, Kuo-Tung		
	Director	Holtek Investment Co., Ltd. Rep.: Wang, Min-Kun		
	Supervisor	Holtek Investment Co., Ltd. Rep.: Liao, Ming-Tung		
	General Manager	Lee, Wen-Yi	--	--
BestComm RF Electronics (BVI) Inc.	Director	BestComm RF Electronics Inc. Rep.: Wu, Chi-Yung	30,000	100%
	Director	BestComm RF Electronics Inc. Rep.: Wang, Min-Kun		
BestComm RF Electronics (Dongguan) Inc.	Chairman	BestComm RF Electronics Inc. Rep.: Lee, Wen-Yi	--	100%
	Director	BestComm RF Electronics Inc. Rep.: Gau, Kuo-Tung		
	Director	BestComm RF Electronics Inc. Rep.: Wang, Min-Kun		
	Supervisor	BestComm RF Electronics Inc. Rep.: Liao, Ming-Tung		
	General Manager	Hsiao, Chien-Tung	--	--
Best Modules Corp.	Chairman	Holtek Investment Co., Ltd. Rep.: Wu, Chi-Yung	1,000,000	100%
	Director	Holtek Investment Co., Ltd. Rep.: Gau, Kuo-Tung		

Company Name	Title	Name or Representative	Holding Shares	
			Shares	%
	Director	Holtek Investment Co., Ltd. Rep.: Tsai, Jung-Tsung		
	Supervisor	Holtek Investment Co., Ltd. Rep.: Liao, Ming-Tung		
	General Manager	Yeh, Ping-Lin	--	--
Best Solution Technology Inc.	Chairman	Holtek Investment Co., Ltd. Rep.: Wu, Chi-Yung	800,000	40%
	Director	Holtek Investment Co., Ltd. Rep.: Wang, Min-Kun		
	Director	Signal Electronic Co. Ltd. Rep.: Lin, Chi-Kuei	737,500	36.875%
	Supervisor	NEW GAIN INVESTMENT INC. Rep.: Chou, Ling-Na	212,500	10.625%
	President	Yueh, Cheng-Ping	125,000	6.25%
Best Solution Electronics Inc.	Director	Best Solution Inc. Rep.: Wang, Min-Kun	200,000	100%

8.1.6 Operation Highlights of Holtek's Affiliated Companies

As of December 31, 2018; Unit: NT\$ thousands

Company Name	Capital	Assets	Liabilities	Net Worth	Net Sales	Income (loss) from Operation	Net Income	EPS (NT\$)
Holtek Semiconductor Holding (BVI) Ltd.	475,831	747,988	223,513	524,475	799,957	0	43,268	2.84
Holtek Semiconductor (Xiamen) Inc.	113,551	170,935	57,646	113,289	320,441	(435)	531	Note 2
Holtek Semiconductor (China) Inc.	292,423	481,257	154,823	326,434	629,806	31,865	35,312	Note 2
Sigmos Holdings Ltd.	6,898	22,811	0	22,811	0	0	231	1.16
Holtek Semiconductor (USA), Inc.	6,898	23,627	816	22,811	28,593	218	231	0.12
MCU Holdings Ltd.	16,333	650,461	0	650,461	0	(91)	106,251	212.50
Kingtek Semiconductor Holding (BVI) Ltd.	69,542	120,725	0	120,725	0	0	1,632	0.82
Holtek Semiconductor (Suzhou) Inc.	69,712	242,982	122,297	120,685	317,574	1,792	1,630	Note 2
Holtek Investment Co., Ltd.	429,826	490,807	34	490,773	0	(43)	19,229	0.45
Best Solution Technology Inc.	20,000	50,773	11,922	38,851	18,456	493	12,044	6.02
Best Solution Electronics Inc.	6,140	136,347	95,804	40,543	476,012	8,063	15,636	78.18
BestComm RF Electronics Inc.	40,000	22,641	979	21,662	1,494	(3,862)	(3,356)	(0.84)
BestComm RF Electronics (BVI) Inc.	14,054	12,530	1,742	10,788	30,265	2,875	434	14.47
BestComm RF Electronics (Dongguan) Inc.	9,214	6,932	581	6,351	6,580	(2,588)	(2,574)	Note 2
Best Modules Corp.	10,000	10,516	621	9,895	1,538	(95)	(41)	(0.04)
Anchip Technology Corporation	5,071	4,950	746	4,204	8,571	2,084	1,438	1437.54
Anchip Technology (Dongguan) Corporation	1,521	3,461	2,820	641	1,332	(649)	(647)	Note 2
Best Health Electronics Corporation	26,410	32,646	4,310	28,336	39,603	7,562	1,755	292.55
Best Health Electronics (Dongguan) Corporation	23,057	16,023	913	15,110	4,454	(5,984)	(5,930)	Note 2
Best Power Electronics Corporation	8,844	8,940	0	8,940	0	(39)	(48)	(23.96)
Holtek Semiconductor (India) Private Limited	2,948	1,962	306	1,656	485	(1,181)	(1,186)	(0.18)

Note 1: If the affiliated company is a foreign company, the listed relevant figures are retranslated at the functional currency rates of exchange ruling at the balance sheet date. The exchange rate are NT\$ 30.665=US\$ 1.00, NT\$ 4.4459= RMB 1.00 and NT\$ 0.4395= INR 1.00, respectively.

Note 2: This affiliated Company is a limited company and has not issued any outstanding shares. Therefore, EPS is not available to calculate.

8.1.7 Representation Letter

Representation Letter

The entities that are required to be included in the combined financial statements of Holtek Semiconductor Inc. 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 Financial Reporting Standard No. 10, "Consolidated Financial Statements" endorsed by the Financial Supervisory Commission. In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, HOLTEK Semiconductor Inc. and its subsidiaries do not prepare a separate set of combined financial statements.

Hereby declare

Company Name: Holtek Semiconductor Inc.

Chairman: Wu, Chi-Yung

Date: January 28, 2019

8.1.8 Business Reports of Affiliated Companies: None.

8.2 Private Placement Securities: None.

8.3 Holding or Disposition of the Company's Stock List by Subsidiaries: None.

8.4 Other Supplementary Information: None.

8.5 The Most Recent Fiscal Year and Up to the Date of This Annual Report Printed, Any Event That Significantly Affects the Shareholders' Equity or Stock Price of the Company as Stated in Subparagraph 2, Paragraph 3, Article 36 of the Securities and Exchange Act: None.

Holtek Semiconductor Inc.

Chairman: Wu, Chi-Yung