Stock Code: 3006

ESMT Elite Semiconductor Memory Technology Inc.

# Annual Report 2019

(English Translation of a Report Originally Issued in Chinese)

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http://www.esmt.com.tw

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The Company does not issue any overseas securities.

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# Letter to the Shareholders

Dear Shareholders,

Due to the sluggish memory market demand and the decline in the average selling price (ASP), the global memory market size dropped 31.5% in 2019. The market size of DRAM products decreased by approximately 33% and the market size of the NAND Flash decreased by approximately 30%. According to the latest data from Gartner, a research institute, dragged by the large downsizing of the memory market, the global overall semiconductor market in 2019 also decreased by 11.9% annually to US$ 418.302 billion, which is lower than 2018 (US$ 421.723 billion).

In terms of companies, all top three memory suppliers in the world experienced a decline in revenue and revenue share in 2019. The revenue of Samsung Electronix, SK Hynix, and Micron decreased by 29.1%, 38.0%, and 32.6 respectively, which was equivalent to US$ 52.215 billion (12.5%), US$ 22.478 billion (5.$%) and US$ 20.056 billion (4.8%).

In terms of DRAM, the products have been affected by the decline in market demand. Oversupply began at the end of 2018 and it continued in 2019. The continued decline of the ASP of DRAM was due to the inventory clearance of OEMs in the first half of 2019 and the suppliers lowered the selling price of DRAM products to reduce excessive inventory.

In terms of NAND, the inventory level of the product began to increase at the end of 2017, and it was exacerbated by weak demand in the terminal application market in the first half of 2019. However, due to the power outage of the NAND fab jointly owned by KIOXIA (formerly known as Toshiba Memory Corporation) and Western Digital in July 2019, some production lines were shut down, which allowed suppliers to clear their inventory and then average up the low product prices.

In 2020, due to the mobile phone replacement trend driven by 5G, the industry is optimistic that it will have an important impact on the capacity of DRAM or NAND. The launch of 5G flagship models will promote the trend of DRAM market specification toward 8GB to 12GB, and the storage capacity of NAND will also increase from 64GB to 512GB, or even 1TB. The industry pointed out that due to the benefits from the demand for 5G mobile phone shipments, the price of mobile DRAM saw an upward trend in the first half of the year, and is expected to rise continuously till the second half of the year. Judging from the contract price in the first quarter of 2020, mobile and PC DRAM quotations were flat to slightly increase, compared with the price increase of server memory of more than 10%. Meanwhile, with the increase in the adoption rate of SSD and the rise of 5G mobile phones, the global NAND market will continue to show a recovery in 2020, which will drive the market demand and prices of SLC NAND to increase.

Driven by the growth of multiple folds of TWS market demand, NOR Flash has become the focus. To support Bluetooth 5.0 and active noise reduction, each TWS must be equipped with NOR Flash to assist computing. As major brands have launched new TWS products, the number and the capacity of NOR Flash will double, and the market size will grow year by year. It is estimated that the total shipment of TWS in 2022 will be up to approximately 300 million units. In addition, AMOLED panels, TDDI chips, etc. also need to be equipped with NOR Flash. Among them, in order to provide AMOLED panel optical display compensation and other requirements, NOR Flash with 4MB to 32 MB is required, and external NOR Flash is also needed to assist in adjusting the parameters of TDDI chips. Under the continuous trend of the terminal application market, it is estimated the penetration rate of mobile phones equipped with AMOLED panels and TDDI chips will exceed 50% by 2022. However, the recent 50/60 nanometer capacity that can provide NOR Flash OEM has been in short supply and the production cannot be increased before the fourth quarter of 2020. Therefore, the NOR Flash will show a tight supply in the first half of 2020.

Looking ahead, with the inventory clearance of memory products and the recovery of ASP, coupled with the expected ease in trade tension between the United States and China, it is expected that the global semiconductor market will resume growth in 2020. However, it is still difficult to assess the impact of the COVID-19 on the industry.

The Company is deeply involved in niche memory, including niche DRAM, NOR Flash, and SLC NAND. Despite the impact of the decrease in the ASP of memory and the recession, the annual revenue still reached a record high of NT$ 11.983 billion (consolidated revenue). In 2020, due to the gradual recovery of the memory market and the relaxation of the China-US Trade War, the memory market will perform well. The revenue forecast for 2020 will be an increase in shipments and revenue growth.

In terms of power IC and analog IC product lines, after years of hard work, the product line has become more complete. It has also been verified in major customers, especially that Audio Amplify's market share is continuously increasing in the TV market. The company has achieved a great result in the market expansion of smart speakers in 2019 and the related revenue has increased by 21.8%. It is expected that the TV and smart speaker markets will continue to grow in 2020.

The Company's revenue for 2019 was NT$ 11,983,479 thousand, an increase of 10.51% compared with the operating income for 2018 of NT$ 11,555,124 thousand. The annual gross profit margin was 18.42% and the net profit before tax was NT$ 848,260 thousand.

I. Operating Results for 2019 (adopted from Consolidated Financial Statements information)

1. Comparison of the operating condition in 2019 and 2018 is as follows:

Unit: NT$1,000

| | 2019 | 2018 | Increase (Decrease) | Increase (Decrease) % |
|---|---|---|---|---|
| Revenue | 11,983,479 | 11,555,124 | 428,355 | 3.71% |
| Gross Profit | 1,802,208 | 2,128,927 | ( 326,719) | ( 15.35%) |
| Operating Expenses | ( 1,227,265) | ( 1,322,512) | ( 95,247) | ( 7.20%) |
| Profit (Loss) from Operations | 574,943 | 806,415 | ( 231,472) | ( 28.70%) |
| Net Non-operating Revenue | 1,237 | 41,845 | ( 40,608) | ( 97.04%) |
| Net Profit (Loss) Before Tax | 576,180 | 848,260 | ( 272,080) | ( 32.08%) |
| Net Profit (Loss) After Tax | 505,611 | 716,194 | ( 210,583) | ( 29.40%) |

2. Financial Revenue and Expenses and Profitability Analysis

(1) Financial Revenue and Expenses

Unit: NT$1,000

| Item | 2019 | 2018 | Increase (Decrease) | Increase (Decrease) % |
|---|---|---|---|---|
| Cashflow from Operating Activities | 1,849,420 | ( 596,909) | 2,446,329 | 409.83% |
| Cash flow from Investing Activities | ( 324,068) | ( 222,388) | ( 101,680) | ( 45.72%) |
| Cash flow from Financing Activities | ( 642,177) | ( 172,203) | ( 469,974) | (272.92%) |

(2) Profitability

| Item | | 2019 | 2018 |
|---|---|---|---|
| Return on Assets (%) | | 4.94 | 7.24 |
| Return on Equity (%) | | 6.93 | 9.94 |
| Percentage of Paid-in Capital (%) | Operating Profit | 20.12 | 28.22 |
| | Net Profit before Tax | 20.16 | 29.68 |
| Net Profit Margin (%) | | 4.22 | 6.20 |
| Earnings Per Share (NT$) | | 1.78 | 2.52 |

(3) Research and Development: The research and development expense for 2019 was NT$ 739,882 thousand, accounting for approximately 6.17% of the revenue.

II. Summary of 2020 Business Plan

1. Business Strategy

(1) Recruit more R&D personnel to improve R&D strength, and increasing R&D equipment expenditure to improve R&D efficiency.

(2) Expand 25nm low-density niche DRAM memory product lines, e.g. DDR4, DDR3, LP DDR3, DDR2, LP DDR2, etc.

(3) Accelerate the introduction of 21nm DRAM product development to maintain the competitive advantage of the cost structure.

(4) Accelerate mass production of 28nm NAND products.

(5) Accelerate the development of MCP (NAND+DRAM) product line.

(6) Fully expand the 50nm NOR Flash product line and business.

(7) Accelerate the development of power IC and analog IC product lines.

(8) Maintain a stable financial structure.

2. Sales Forecast and its Basis

Although the PC market continues to decline, and the smartphone market is gradually becoming saturated. In order to improve its performance, the memory capacity of PCs and smartphones has also increased significantly. Especially in the new era of 5G, the demand for DRAM and NAND will grow substantially. For NOR Flash, new applications such as TWS, AMOLED, TDDI, etc. continue to increase. Although the prices began to drop in the second quarter of 2018, it is estimated that the shipments will increase, and revenue will slightly increase in 2020.

The global revenues of DRAM and Flash both hit record highs in 2018, which brought a wave of glory to the niche memory market. However, in the second half of 2018, the memory boom began to reverse, and the recession cycle started. The Company will strengthen its strategic partnerships with customers, provide high-quality services in order to increase customer satisfaction, in order to get through a difficult time in 2019. However, as the economy gradually improves, it is estimated that revenue and profits in 2020 will grow slightly.

3. Important Production and Sales Policies

(1) Strengthen the partnerships with wafer suppliers and post-production outsourcers to maintain stable production capacity and supply.

(2) Strengthen the business of KDG, NOR, NAND, and MCP.

(3) Provide better cost structure and quality than other companies and expand the market share of domestic and foreign markets.

(4) Strengthen the interactive relationship with distributors and expand the areas of application of new products to increase business sales.

III. Future Development Strategies of the Company

Although global suppliers of DRAM and NAND Flash tend to consolidate, unlike the bloodshed price competition in the past, China has vigorously supported the semiconductor industry in rent years, especially the DRAM and NAND memory industries, and has invested in great variables to the supply of memory in the future. The new memory Fab will be completed and mass-produced after 2020. By then, the memory industry will start a new round of competition and elimination and this will affect the niche memory market. In this macro-environment, improve the technical strength, accelerate new product development, and continue to reduce costs are the only ways to cope with the future competition.

As the application of low-density niche memory is becoming wider, it is an indispensable electronic component for technology products. It is expected that the global demand for niche memory will continue to grow in 2020. The Company will continue to increase the development of new products in response to market demand, in addition to focusing on high-integration, high-speed and low-power memory IC products, KGD, NOR, NAND Flash, and MCP businesses, and accelerate research and development of analog IC, analog-digital mixed IC product line to enhance the competitiveness and meet the various needs of the customers. The Company will actively strengthen the research and development of new products to improve its competitiveness and have a greater foundation in future competition to maximize profits for the Company.

## IV. Impact on the Company Due to Competition, Governmental Regulations, and Overall Operation Environment

Since 2019, the financial results and overall profit performance of major memory suppliers have plummeted, it is a matter of urgency to control the loss. Therefore, to support the gradual increase in market price, the supply capacity for 2020 will be prudently increased and so that the demand growth will be higher than the supply. This strategy has become a consensus among major memory suppliers. However, since the outbreak of COVID-19, the lockdown measures in all cities and towns across China have continued to expand. Traffic has been restricted and the challenge of manpower resuming work has increased. The broader impact is that the overall consumer confidence has weakened. At present, the market survey expects that the sales of the Chinese smartphone will decline significantly in 2020, by at least 10%. If the pandemic control is extended to the second quarter, it may decline by 20%. Although the growth prospects of 5G mobile phones of Qualcomm and MediaTek for 2020 has not been affected, the promotion and buying momentum of the new products are threatened by the outbreak.

Although COVID-19 continues to spread and has evolved into a global pandemic, the demand for consumer electronics such as mobile phones and NB will be the first to be affected. However, memory suppliers believe that the market demand will be expected to occur in a staggered manner. It is expected that the shortage of upstream wafer supply will be slowed down to a certain extent, but it is clear that upstream manufacturers will control the price increase. Despite the different progress in the resumption of work in various regions, the industry still generally expects the prices of DRAM and NAND Flash to remain unchanged.

Therefore, although it is unknown when the pandemic will end, the impact on the future overall economic situation and the fluctuations in market demand will continue. However, the way to maintain the balance in the Company's revenue and expenditures and to ensure free cashflow under these circumstances are the challenges for major memory suppliers.

The Company's current operations are in compliance with the relevant existing laws and regulations of domestic and foreign reinvestment countries. The management team will also continue to pay close attention to any changes in policies and laws that may affect the company's finances and business, as a reference for operations. In addition, the Company also cooperates with professional organizations to pays close attention to the development of relevant laws and regulations, and immediately adjusts its strategies to meet the needs of operations. Therefore, the Company can timely grasp and respond to important domestic and foreign policy and legal changes.

Chairman of the Board and CEO: Hsing-Hai Chen

President: Ming-Chien Chang

# Company Profile

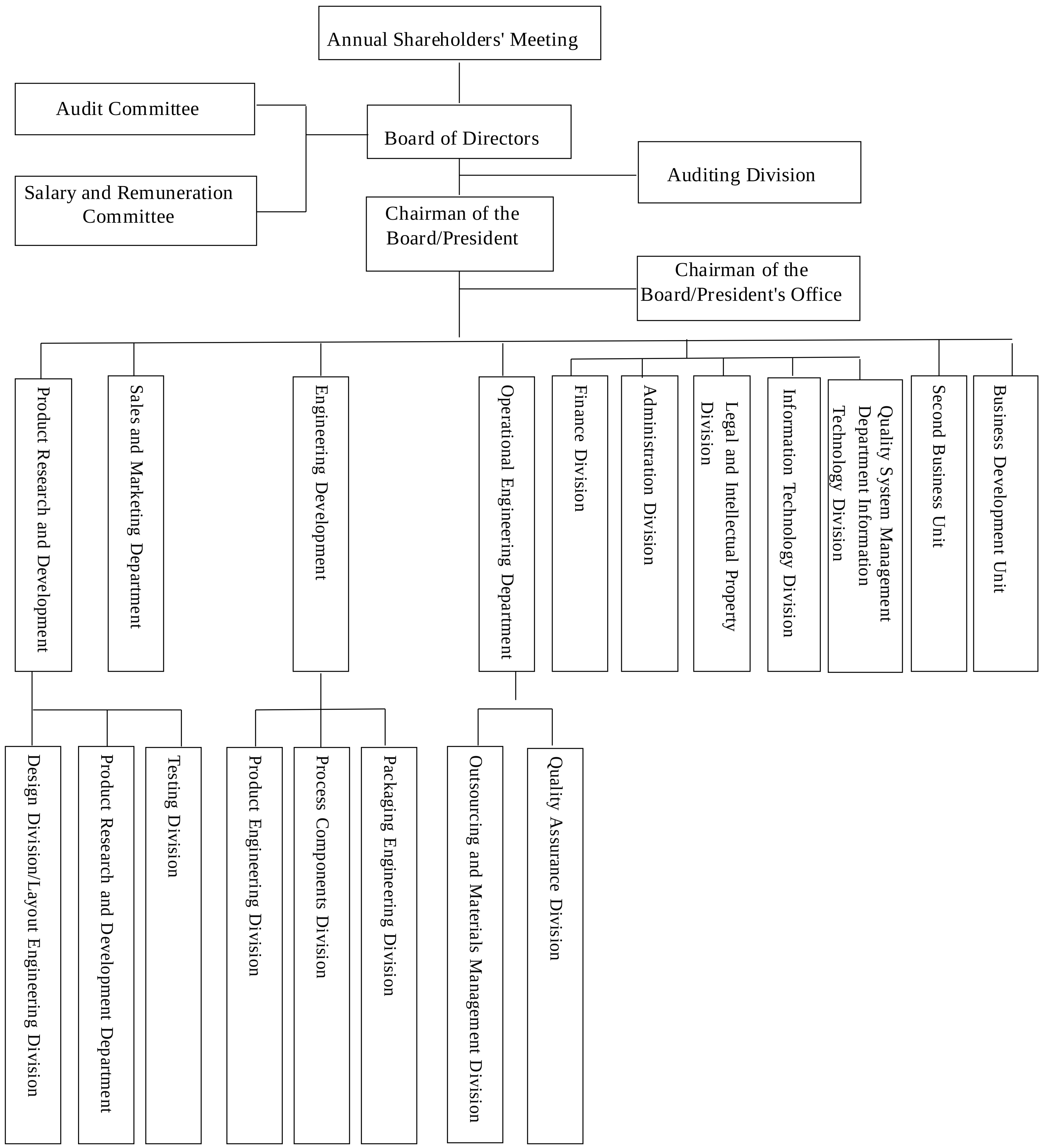
I. Date of Founding: June 2, 1998.

II. Corporate History: Elite Semiconductor Memory Technology Inc. (hereinafter “the Company”) was established on June 2, 1998 and was listed on the Taiwan Stock Exchange since March 4, 2002. As of December 31, 2019, the Company's authorized capital is NT$ 3,500,000,000 and the paid-in capital is NT$ 2,857,589,250. The main business of the Company includes research and development, production and sales of DRAM/SRAM, Flash Memory, Analog IC, Analog-Digital Mixed IC, and the technical services related to product design and research and development of the Company. With the engineering technology that has been focusing on DRAM/Flash Memory for many years, the Company has launched the Multi-Chip Package (MCP) products that are suitable for various mobile communication systems. To accelerate the expansion of the analog product business, the Company completed the consolidation and merger of Advanic Technologies, Inc. in December 2005 and established the Analog Product Department in August, 2008 to extend the product line to the research and development of analog IC, and analog-digital mixed IC. The Company has completed the consolidation by merger with Eon Silicon Devices, Inc in June, 2016 in order to obtain the synergy effect of the strategic collaboration for the product development resources of Flash Memory. In addition, the main spinout companies indirectly held by the Company are 3R Semiconductor Technology Inc., Canyon Semiconductor Inc., and Elite Silicon Technology Inc., which are engaged in research and development of Power IC and SoC IC, etc. respectively.

# Corporate Governance Report

I. Organizational System

(I) Organizational structure



(II) Major Department Functions

| Major Departments | Major Responsibilities and Functions of the Departments |
|---|---|
| Chairman of the Board/President's Office | Company's Project Promotion/ Coordination and Other Related Operations. |
| Auditing Division | Establishment, operation, audit and reivew of various internal control systems, operations and management regulations. |
| Design Division/ Layout Engineering Division | Responsible for circuit design, simulation, layout, detection of memory IC products and assistance in mass production product issue analysis and necessary consultation. |
| Product Research and Development Department | Responsible for memory IC product specification verification, failure mode analysis, mass production condition formulation, yield improvement, new process development and analysis, product practical application verification, and assisting customers to solve product application problems. |
| Testing Division | Responsible for the establishment and maintenance of memory IC product test programs, calibration of test equipment, evaluation of test outsourcing testers, automatic analysis of product engineering data and evaluation of reliability evaluation of new needle test boards, and verification of actual product application and assisting customers to solve product application problems. |
| Sales and Marketing Department | Responsible for memory IC product marketing strategy, product sales, customer service and assisting in the promotion of business and new products, new technology markets, specification evaluation, formulation of new product specification, handling of customer complaints, return analysis, product information collection, mass production specification modification, etc. |
| Business Development Department | Strategic evaluation and development of various new product businesses. |
| Product Engineering Division/ Packaging Engineering Division | Responsible for engineering evaluation of new product development, packaging production line development, CP/FT test production line development, production line abnormal analysis of ramping, process flow, countermeasure formulation, and promotion of execution, etc. |
| Process Components Division | Responsible for memory IC wafer production plan management, process technology definition, process design criteria verification, SPICE MODEL for product design, component process characteristics analysis, and mask making tape out process management, etc. |
| Outsourcing and Materials Management Division | Responsible for memory IC mass production plan, outsourced production strategy, production plan, materials, warehouse management, bonded and import and export operations, etc. |
| Quality Assurance | Responsible for product quality inspection, quality assessment and regular |

| Major Departments | Major Responsibilities and Functions of the Departments |
|---|---|
| Division | audit of outsourcers, handling of customer complaints, return analysis, improve countermeasure requirements and effectiveness tracking. |
| Finance Division | The Company's financial management, accounting, budget management, shareholding affairs, payroll, etc. |
| Administration Division | Responsible for Company-wide personnel, education and training, labor laws, general affairs, factory affairs, labor safety and health, transportation, transactional procurement, etc. |
| Quality and System Management Department | Responsibile in assisting in the establishment and maintenance of Company-wide quality/environmental system operation and audits, outsourcer's quality system assessment, implementation of control operations such as the establishment, modification, and issuance of documentation, and establishment and maintenance of measurement equipment verification systems |
| Legal and Intellectual Property Division | Responsible for the Company's legal affairs, patent/trademark applications, etc. |
| Second Business Unit | Management and maintenance of the Vompany's OA, MIS system, network and other information related systems. |
| Business Development Unit | Responsible for the strategic evaluation and development of new products and business. |

II. Information of the Company's Directors, Supervisors, President, Vice Presidents, Assistant Vice Presidents, and the Heads of all the Company's Departments and Divisions

(I) Information of Directors and Supervisors

1. Directors and Supervisors

Record date: April 17, 2020

| Title | Name | Nationality/Place of Registration | Gender | Date Elected | Term (Years) | Date First Elected | Shares Held when Elected | | Shares Currenly Held | | Shares Held by Spouse and Minor Children | | Shares Held in the Name of Other Person(s) | | Primary Professional or Academic Experience | Position(s) Concurrently Held at the Company and Other Companies | Other Executives, Directors, or Supervisors who are spouses or within the second degree of kinship. | | | Remarks |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Number of Shares | Shareholding Percentage | Number of Shares | Shareholding Percentage | Number of Shares | Shareholding Percentage | Number of Shares | Shareholding Percentage | | | Title | Name | Relationship | |
| Chairman of the Board | Hsing-Hai Chen | Republic of China | Male | 2019.6.13 | 3 years | 1999.7.06 | 8,411,629 | 3.08% | 8,411,629 | 2.94% | 1,370,927 | 0.47% | - | - | Master of Applied Physics, National Tsing Hua University | Note 1 | Nil | Nil | Nil | Nil |
| Director | Ming-Chien Chang | Republic of China | Male | 2019.6.13 | 3 years | 1998.5.20 | 5,523,825 | 2.02% | 5,523,825 | 1.93% | 1,618,785 | 0.56% | - | - | Master Degree from the Institute of Electronics, National Chiao Tung University | Note 1 | Nil | Nil | Nil | Nil |
| Director | Chih-Hong Ho | Republic of China | Male | 2019.6.13 | 3 years | 2004.6.25 | 628,172 | 0.19% | 628,172 | 0.22% | - | - | - | - | PhD in Mechanical Engineering, North Carolina State University, USA | Note 1 | Nil | Nil | Nil | Nil |
| Director | Yeong-Wen Daih | Republic of China | Male | 2019.6.13 | 3 years | 2016.6.15 | 571,205 | 0.17% | 581,205 | 0.20% | 75,970 | 0.02% | - | - | Master Degree from the Institute of Electronics, National Chiao Tung University | Note 1 | Nil | Nil | Nil | Nil |
| Director | Shin Xin Investment Co., Ltd. | Republic of China | | 2019.6.13 | 3 years | 2019.6.13 | 7,000 | -% | 255,000 | 0.09% | - | - | - | - | | | | | | |
| Director Representative | Chia-Neng Huang (Legal Representative of Shin Xin Investment Co., Ltd.) | Republic of China | Male | 2019.6.13 | 3 years | 2019.6.13 | - | - | - | - | - | - | - | - | Department of Mechanical Engineering, Chung Yuan Christian University | Note 1 | Nil | Nil | Nil | Nil |
| Independent Director | Shan-Jen Chow | Republic of China | Male | 2019.6.13 | 3 years | 2003.2.18 | - | - | - | - | - | - | - | - | Master of Business Administration, Golden Gate University, California, USA | | Nil | Nil | Nil | Nil |
| Independent Director | Tsin-Fu Jiang | Republic of China | Male | 2019.6.13 | 3 years | 2007.6.15 | - | - | - | - | - | - | - | - | PhD in Physics, National Tsing Hua University Professor, Institute of Physics, National Chiao Tung University | Note 1 | Nil | Nil | Nil | Nil |
| Independent Director | Cheng-Yan Chien | Republic of China | Male | 2019.6.13 | 3 years | 2019.6.13 | - | - | - | - | - | - | - | - | Emory University, USA Master of Business Management | Note 1 | Nil | Nil | Nil | Nil |

Note 1: Current positions in other companies

| | |
|---|---|
| Hsing-Hai Chen | Chairman of the Board, Elite Memory Technology Inc.<br>Chairman of the Board, 3R Semiconductor Technology Inc.<br>Chairman of the Board, Elite Silicon Technology Inc.<br>Chairman of the Board, ESMT Educational Foundation<br>Chairman of the Board, Jie Yong Investment Ltd.<br>Director, Elite Investment Services Ltd.<br>Director, Elite Semiconductor (B.V.I) Ltd. |
| Yeong-Wen Daih | Director, ie Yong Investment Ltd. |
| Chih-Hong Ho | Director, Elite Innovation Japan Ltd.<br>Legal Representative, Elite Semiconductor Memory Technology (Shenzhen) Inc.<br>Legal Representative, Elite Semiconductor Microelectronics (Shanghai) Technology Inc. |

| | |
|---|---|
| Ming-Chien Chang | Chairman of the Board, Charng Feng Investment Ltd.<br>Director, Elite Silicon Technology Inc.<br>Director, ESMT Educational Foundation<br>Director, Jie Yong Investment Ltd.<br>Director, Elite Investment Services Ltd. |
| Chia-Neng Huang | Director, Hopeful (HK) Enterprise Holdings Ltd.<br>Corporate Director, WSP Electromaterials Ltd.<br>Representative<br>Director, CWE Holding Co., Ltd.<br>Director, CWER Co., Ltd.<br>Director, Broadwell Worldwide Ltd.<br>Chairman of the Board and Chief Executive<br>Chairman of the Board, President and Chief Executive Officer of Chang Wah Electromaterials Inc.<br>Officer of Chang Wah Technology Co., Ltd.<br>Chairman of the Board, ThinFlex Corporation Co.,Ltd. |

| | |
|---|---|
| Chia-Neng Huang | Chairman of the Board, JMC Electronics Co., Ltd.<br>Chairman of the Board, SH Electronics Taiwan Co., Ltd.<br>Chairman of the Board, Chang Wah Energy Technology Co., Ltd<br>Director, eChem Solutions Corp.<br>Corporate Director, How Weih Holding (Cayman) Co., Ltd.<br>Representative<br>Chairman of the Board, How Weih International Ltd.<br>Chairman of the Board, SH Asia Pacific Pte.Ltd.<br>Chairman of Silver Connection Co., Ltd.<br>Representative of corporate director of Yin Kang Co., Ltd.<br>Representative of corporate director of Yin Tai Co., Ltd. |

2. Major shareholders of the institutional shareholders

(1) Major shareholders of the institutional shareholders as at April 17, 2020

| Name of Institutional Shareholders (Note 1) | Major shareholders of the institutional shareholders (Note 2) | Shareholding Percentage |
|---|---|---|
| Shin Xin Investment Co., Ltd. | None. | - |

Note 1: If the Director or Supervisor is a representative of an institutional shareholder, his/her name shall be specified.

Note 2: Please fill in the name and the shareholding percentage of the major shareholders of institutional shareholders (shareholders within the 10 biggest shareholding percentage). If the major shareholders are legal entities, information shall be provided in the following table.

Note 3: For corporate shareholders who are not under the organization of the Company, the name and shareholding of the shareholders shall be disclosed (i.e. name of the investor or donor and their investment or donation ratio).

(2) Major shareholders of institutional shareholders who are representative of institutional shareholders: None.

3. Professional Qualifications and the Independence of Directors:

| Qualification / Name | Meets one of the following professional qualifications, with at least five years of working experience | | | Independence Criteria (Note 1) | | | | | | | | | | | | Number of other public companies where the individual concurrently serves as an Independent Director |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Currently serving as a lecturer or higher position in a private or public college or university in the field of business, law, finance, accounting, or any related field required in business. | Currently serving as a judge, prosecutor, lawyer, accountant, or any other professional practice or technician that must undergo national examinations and specialized license | Work experience in commerce, legal affairs, finance, accounting, or related experience required by business | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | |
| Hsing-Hai Chen | | | ✓ | | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |
| Ming-Chien Chang | | | ✓ | | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |
| Chih-Hong Ho | | | ✓ | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |
| Yeong-Wen Daih | | | ✓ | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |
| Chia-Neng Huang | | | ✓ | ✓ | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |
| Shan-Jen Chow | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |
| Tsin-Fu Jiang | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |
| Cheng-Yan Chien | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |

Note 1: Please tick "" in the corresponding boxes if the Directors have met any of the following criteria 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 or Supervisor of the company or any of its affiliates. (Not applicable in cases where the person is an Independent Director of the company, its parent company, or any subsidiary as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary).

(3) Not a natural person shareholder who holds more than one percent (1%) of issued shares or is ranked top ten in terms of the total number of shares held, including the shares held in the name of the person’s spouse, minor children, or in the name of others.

(4) Not a manager listed in (1) or a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship listed in (2) and (3).

(5) Not a director, supervisor or employee of a corporate shareholder who directly holds more than 5% of the total number of issued shares of the Company or is ranked top five in terms of the number of shares held or is designated as a Director or Supervisor of the Company pursuant to Paragraph 1 or 2, Article 27 of the Company Act (Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary).

(6) Not a director, supervisor, or employee of another company that the majority of its directors or the shares with voting rights are controlled by the same person (excluding independent directors appointed by both the Company and its parent company, subsidiary or subsidiaries under the same parent company pursuant to this regulation or the local regulations).

(7) Not a director, supervisor, or employee of another company or an institution who is concurrently a chairman, general manager, or equivalent position of the Company or a spouse thereof (excluding independent directors appointed by both the Company and its parent company, subsidiary or subsidiaries under the same parent company pursuant to this regulation or the local regulations)

(8) Not a director, supervisor, manager, 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 (excluding specified companies or institutions holding more than 20% but less than 50% of the total issued shares of the Company, and independent directors appointed by both the Company and its parent company, subsidiary or subsidiaries under the same parent company pursuant to this regulation or the local regulations).

(9) Not a professional individual who is an owner, partner, director, supervisor, or manager of a sole proprietorship, partnership, company, or institution, or a spouse thereof, that provides commercial, legal, financial, accounting services or consultation to the Company or its affiliated companies, or those made an accumulated profit of less than NT$500,00 over the last 2 years. However, members of the special committee on remuneration, public acquisition review, or merger and acquisition who perform their functions in accordance with the provisions of Securities and Exchange Act or Business Mergers and Acquisitions Act and other relevant regulations shall not be subject to this provision.

(10) Not a spouse or a relative within the second degree of kinship with any Director.

(11) Where none of the circumstances in the subparagraphs of Article 30 of the Company Act applies.

(12) Where the person is not elected in the capacity of the government, a juristic person, or a representative thereof as provided in Article 27 of the Company Act.

(II) Information of the Presidents, Vice Presidents, Assistant Vice Presidents, and the Heads of all the Company's Departments and Divisions

Record Date: April 17, 2020

| Title | Name | Nationality | Gender | Date of Appointment | Shareholding | | Shares Held by Spouse/Minor Children | | Shares Held in the Name of Other Persons | | Primary Professional or Academic Experience | Position(s) Concurrently Held at the Company or Other Companies | Managers who are spouses or within the second degree of kinship. | | | Remarks |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Number of Shares | Shareholding Percentage | Number of Shares | Shareholding Percentage | Number of Shares | Shareholding Percentage | | | Title | Name | Relation | |
| Chairman of the Board and Chief Executive Officer | Hsing-Hai Chen | Republic of China | Male | 2018.11.03 | 8,411,629 | 2.94% | 1,370,927 | 0.47% | - | - | Master of Applied Physics, National Tsing Hua University | Note 1 | Nil | Nil | Nil | Nil |
| President and Chief Technology Officer of Business Group | Ming-Chien Chang | Republic of China | Male | 2018.11.03 | 5,523,825 | 1.93% | 1,618,785 | 0.56% | - | - | Master of Electronics, National Chiao Tung University | Note 1 | Nil | Nil | Nil | Nil |
| Senior Vice President and Chief Marketing Officer | Chih-Hong Ho | Republic of China | Male | 2015.08.01 | 628,172 | 0.22% | - | - | - | - | PhD in Mechanical Engineering, North Carolina State University, USA | Note 1 | Nil | Nil | Nil | Nil |
| President and Chief Operating Officer | Yeong-Wen Daih | Republic of China | Male | 2018.11.03 | 581,205 | 0.20% | 75,970 | 0.02% | - | - | Master Degree, Institute of Electronics, National Chiao Tung University | Note 1 | Nil | Nil | Nil | Nil |
| Vice President and Second Business Unit | Kuan-Chun Chang | Republic of China | Male | 2018.11.03 | 685,341 | 0.24% | 949 | - | - | - | Master Degree, Department of Electrical Engineering, National Cheng Kung University | Note 1 | Nil | Nil | Nil | Nil |
| Senior Director of Finance Division | Candy Chu | Republic of China | Female | 2016.09.01 | 143,000 | 0.05% | 39,490 | 0.01% | - | - | Department of Accounting and Statistics, Ming Chuan Commercial College | Note 1 | Nil | Nil | Nil | Nil |

Note 1: Position(s) concurrently held in other companies is as follows:

| | |
|---|---|
| Hsing-Hai Chen | Chairman of the Board, Elite Memory Technology Inc.<br>Chairman of the Board, 3R Semiconductor Technogy Inc.<br>Chairman of Elite Silicon Technology Inc.<br>Chairman of the Board, ESMT Educational Foundation<br>Chairman of the Board, Jie Yong Investment Ltd.<br>Director, Elite Investment Services Ltd.<br>Director, Elite Semiconductor(B.V.I) Ltd. |

| | |
|---|---|
| Ming-Chien Chang | Chairman of the Board, Charng Feng Investment Ltd.<br>Director, Elite Silicon Technology Inc.<br>Director, ESMT Educational Foundation<br>Director, Jie Yong Investment Ltd.<br>Director, Elite Investment Services Ltd. |
| Chih-Hong Ho | Director, Elite Innovation Japan Ltd.<br>Legal Representative, Elite Semiconductor Memory Technology (Shenzhen) Inc. |

| | |
|---|---|
| Kuan-Chun Chang | Director, Jie Yong Investment Ltd.<br>Director, ESMT Educational Foundation<br>Legal representative of Elite Semiconductor Microelectronics (Shanghai) Technology Inc |
| Yeong-Wen Daih | Director, Jie Yong Investment Ltd. |
| Candy Chu | Director, ESMT Educational Foundation<br>Supervisor, Elite Silicon Technology Inc.<br>Supervisor, Elite Innovation Japan Ltd. |

(III) Remuneration Paid During in the Most Recent Financial Year to Directors, Supervisors, President, and Vice Presidents Under the Company and All Companies Listed in the Consolidated Statements

1. Remuneration of Directors (including Independent Directors)

| Title | Name | Directors Remuneration | | | | | | | | Ratio of the total of 4 items A, B, C and D to net income after taxes | | Relevant remuneration received by directors who are also employees | | | | | | | | Proportion of the sum of A, B, C, D, E, and F to net profit after tax | | Compensation paid to directors from an invested company other than the Company's subsidiaries or parent company |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Remuneration (A) | | Severance pay and pension (B) | | Remuneration of directors (C) | | Business expense (D) | | | | Salary, bonus and special allowance (E) | | Pension (F) | | Employee's compensation (G) | | | | | | |
| | | The Company | All companies listed in this Financial Report | The Company | All companies listed in this Financial Report | The Company | All companies listed in this Financial Report | The Company | All companies listed in this Financial Report | The Company | All companies listed in this Financial Report | The Company | All companies listed in this Financial Report | The Company | All companies listed in this Financial Report | The Company | | All companies listed in this Financial Report | | The Company | All companies listed in this Financial Report | |
| | | | | | | | | | | | | | | | | Cash | Stock | Cash | Stock | | | |
| Chairman | Hsing-Hai Chen | - | - | - | - | 1,845 | 1,845 | - | - | 0.36% | 0.36% | 4,112 | 4,112 | - | - | - | - | - | - | 1.17% | 1.17% | Nil |
| Directors | Ming-Chien Chang | - | - | - | - | 922 | 922 | - | - | 0.18% | 0.18% | 4,199 | 4,199 | 108 | 108 | 1,157 | - | 1,157 | - | 1.26% | 1.26% | Nil |
| Directors | Chih-Hong Ho | - | - | - | - | 922 | 922 | - | - | 0.18% | 0.18% | 3,950 | 3,950 | 108 | 108 | 2.545 | - | 2.545 | - | 1.48% | 1.48% | Nil |
| Directors | Yeong-Wen Daih | - | - | - | - | 922 | 922 | - | - | 0.18% | 0.18% | 3,851 | 3,851 | 108 | 108 | 2,416 | - | 2,416 | - | 1.44% | 1.44% | Nil |
| Directors | Chia-Neng Huang | - | - | - | - | 461 | 461 | - | - | 0.09% | 0.09% | - | - | - | - | - | - | - | - | 0.09% | 0.09% | Nil |
| Directors | Kuan-Chun Chang (Note 2) | - | - | - | - | 461 | 461 | - | - | 0.09% | 0.09% | 3,565 | 3,565 | 108 | 108 | 2,265 | - | 2,265 | - | 1.26% | 1.26% | Nil |
| Independent Director | Shan-Jen Chow | - | - | - | - | - | - | 850 | 850 | 0.16% | 0.16% | - | - | - | - | - | - | - | - | 0.16% | 0.16% | Nil |
| Independent Director | Tsin-Fu Jiang | - | - | - | - | - | - | 472 | 472 | 0.09% | 0.09% | - | - | - | - | - | - | - | - | 0.09% | 0.09% | Nil |
| Independent Director | Cheng-Yan Chien | - | - | - | - | - | - | 471 | 471 | 0.09% | 0.09% | - | - | - | - | - | - | - | - | 0.09% | 0.09% | Nil |

1. Please illustrate the policies, systems, standards and structure of independent directors' remuneration, as well as the correlation between their remuneration and the responsibilities, risks, and time invested:
   According to Article 24-1 of the Companys' Articles of Incorporation, based on the profit of the year, the Company shall appropriate no less than 5% of the profit as remuneration to employees, and no more than 1% of the profit as remuneration to Directors. With reference to the Company's overall operating performance, industry's future operating risks and development trends, and referring to the individual's performance achievement rate and contribution to the Company's performance, the Company has given reasonable remuneration. Relevant performance evaluation and the remuneration rationality shall be approved by the Remuneration Committee and the Board of Directors.
2. Other than disclosure in the above table, Directors remuneration received by providing services (e.g. providing consulting services as a non-employee) to the Company in the financial report: None.

Note 1: In addition to the above remuneration, directors' remuneration shall be disclosed as follows when received from the companies included in the consolidated financial report in the most recent financial year to compensate the directors for their services, such as being independent contractors etc: not applicable

Note 2: Kuan-Chun Chang resigned on June 13, 2019.

Note 3: The distribution of Directors' and Supervisors' remuneration for the Financial Year 2019 amounted to NT$ 5,994 thousand was approved by the Board of Directors on March 20, 2020. Since the amount of distribution has not been confirmed by internal management, the amount is calculated based on the proportion of the Directors' and Supervisors' remuneration in Financial Year 2018.

Note 4: The distribution of employees' compensation for the Financial Year 2019 amounted to NT$29,970 thousand was approved by the Board of Directors on March 20, 2020. Since the amount of distribution has not been confirmed by internal management, the amount is calculated based on the proportion of the employees' compensation in 2018.

2. Remuneration Paid to Supervisors

As at December 31, 2019 Unit: NT$1,000

| Title | Name | Supervisor's remuneration | | | | | | Proportion of the sum of A, B and C to net income (%) | | Compensation paid to directors from an invested company other than the Company's subsidiaries or parent company |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Remuneration (A) | | Supervisors' remuneration (B) | | Allowances (C) | | | | |
| | | The Company | All companies listed in this Financial Report | The Company | All companies listed in this Financial Report | The Company | All companies listed in this Financial Report | The Company | All companies listed in this Financial Report | |
| Supervisor | Wei-Min Sheng | - | - | - | - | 391 | 391 | 0.07% | 0.07% | Nil |
| Supervisor | Mao-Hsiung Tu | - | - | - | - | 334 | 334 | 0.06% | 0.06% | Nil |
| Supervisor | Representative of ESMT Educational Foundation: Fu-Ming Lai | - | - | 461 | 461 | - | - | 0.09% | 0.09% | Nil |

Note 1: The Supervisor of the Company was dimissed on June 13, 2019.

3. Remunerations to President and Vice Presidents

As at December 31, 2019 Unit: NT$ 1,000/share

| Title | Name | Salary (A) | | Severance pay and pension (B) (Note 1) | | Bonuses and allowances (C) | | Employee's remuneration (D) | | | | Proportion of net profit after tax to the sum of A, B, C, and D (%) | | Compensation paid to directors from an invested company other than the Company's subsidiaries or parent company |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | The Company | | All companies listed in this Financial Report | | | | |
| | | The Company | All companies listed in this Financial Report | The Company | All companies listed in this Financial Report | The Company | All companies listed in this Financial Report | Cash | Stock | Cash | Stock | The Company | All companies listed in this Financial Report | |
| CEO | Hsing-Hai Chen | 3,651 | 3,651 | - | - | 461 | 461 | - | - | - | - | 0.81% | 0.81% | Nil |
| President | Ming-Chien Chang | 3,507 | 3,507 | 108 | 108 | 692 | 692 | 1,157 | - | 1,157 | - | 1.08% | 1.08% | Nil |
| Senior Deputy President | Chih-Hong Ho | 3,206 | 3,206 | 108 | 108 | 744 | 744 | 2.545 | - | 2.545 | - | 1.30% | 1.30% | Nil |
| Deputy President | Yeong-Wen Daih | 3,063 | 3,063 | 108 | 108 | 788 | 788 | 2,416 | - | 2,416 | - | 1.26% | 1.26% | Nil |
| Deputy President | Kuan-Chun Chang | 2,884 | 2,884 | 108 | 108 | 681 | 681 | 2,265 | - | 2,265 | - | 1.17% | 1.17% | Nil |

Note 1: All are recognized contribution

Note 2: 2019 Distribution of employee' compensation of NT$29,970 thousand was approved by the Board of Directors on March 20, 2020. Since the amount of distribution has not been confirmed by internal management, the amount is calculated based on the proportion of employee' compensation in 2018.

4. Managerial officers with the top five highest remuneration amounts

As at December 31, 2019 Unit: NT$ 1,000/share

| Title | Name | Salary (A) | | Severance pay and pension (B) (Note 1) | | Bonuses and allowances (C) | | Employee's remuneration (D) | | | | Proportion of net profit after tax to the sum of A, B, C, and D (%) | | Compensation paid to directors from an invested company other than the Company's subsidiaries or parent company |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | The Company | | All companies listed in this Financial Report | | | | |
| | | The Company | All companies listed in this Financial Report | The Company | All companies listed in this Financial Report | The Company | All companies listed in this Financial Report | Cash | Stock | Cash | Stock | The Company | All companies listed in this Financial Report | |
| CEO | Hsing-Hai Chen | 3,651 | 3,651 | - | - | 461 | 461 | - | - | - | - | 0.81% | 0.81% | Nil |
| President | Ming-Chien Chang | 3,507 | 3,507 | 108 | 108 | 692 | 692 | 1,157 | - | 1,157 | - | 1.08% | 1.08% | Nil |
| Senior Deputy President | Chih-Hong Ho | 3,206 | 3,206 | 108 | 108 | 744 | 744 | 2.545 | - | 2.545 | - | 1.30% | 1.30% | Nil |
| Deputy President | Yeong-Wen Daih | 3,063 | 3,063 | 108 | 108 | 788 | 788 | 2,416 | - | 2,416 | - | 1.26% | 1.26% | Nil |
| Deputy President | Kuan-Chun Chang | 2,884 | 2,884 | 108 | 108 | 681 | 681 | 2,265 | - | 2,265 | - | 1.17% | 1.17% | Nil |

Note 1: All are recognized contribution

Note 2: 2019 Distribution of employee' compensation of NT$29,970 thousand was approved by the Board of Directors on March 20, 2020. Since the amount of distribution has not been confirmed by internal management, the amount is calculated based on the proportion of employee' compensation in 2018.

5. Names of Managers for Distributing the Employees' Compensation and Distribution Status

Unit: NT$ 1,000

<table>
<tr><th></th><th>Title</th><th>Name</th><th>Shares Amount</th><th>Cash Amount</th><th>Total</th><th>Ratio of the Total Amount to Net Profit After Tax (%)</th></tr>
<tr><td rowspan="6">Manager</td><td>Chief Executive Officer</td><td>Hsing-Hai Chen</td><td rowspan="6">-</td><td rowspan="6">9,337</td><td rowspan="6">9,337</td><td rowspan="6">1.84%</td></tr>
<tr><td>President</td><td>Ming-Chien Chang</td></tr>
<tr><td>Senior Vice President</td><td>Chih-Hong Ho</td></tr>
<tr><td>Senior Vice President</td><td>Yeong-Wen Daih</td></tr>
<tr><td>Vice President</td><td>Kuan-Chun Chang</td></tr>
<tr><td>Senior Director of Finance Division</td><td>Candy Chu</td></tr>
</table>

Note 1: The distribution of employees' compensation for the Financial Year 2019 amounted to NT$ 29,970 thousand was approved by the Board of Directors on March 20, 2020. Since the amount of distribution has not been confirmed by internal management, the amount is calculated based on the proportion of employee' compensation in 2018.

(IV) The analysis of the ratio of the total remuneration paid to the Company’s Directors, Supervisors, President and Vice Presidents of the Company and all companies listed in the consolidated financial statements in the most recent two financial years to Net Profit After Tax, and the relevance of remuneration payment policies, standards and combination, procedures determining remuneration, business performance and future risk shall be compared and stated:

Units: NTD 1,000; %

| Item | FY 2018 | | FY 2019 | |
|---|---|---|---|---|
| | The Company | Consolidated Financial Statements | The Company | Consolidated Financial Statements |
| Total Directors' Remuneration | 8,499 | 8,499 | 5,533 | 5,533 |
| Ratio of Total Directors' Remuneration to Net Profit After Tax (%) | 1.20% | 1.20% | 1.09% | 1.09% |
| Total Supervisors' Remuneration | 2,712 | 2,712 | 1,186 | 1,186 |
| Ratio of Total Supervisors' Remuneration to Net Profit After Tax (%) | 0.38% | 0.38% | 0.23% | 0.23% |
| Total Remuneration for the President and Vice Presidents | 30,503 | 30,503 | 28,492 | 28,492 |
| Ratio of Total Remuneration for President and Vice Presidents to Net Profit After Tax (%) | 4.32% | 4.32% | 5.63% | 5.63% |

There is no material difference in the ratio against Net Profit After Tax for FY2018 and FY2019.

According to Article 24-1 of the Companys' Articles of Incorporation, based on the profit of the year, the Company shall appropriate no less than 5% of the profit as remuneration to employees, and no more than 1% of the profit as remuneration to

Directors. However, cumulative loss should be offset, if any. The Company shall also consider its operating results and the contribution to the Company's performance, and provide reasonable remuneration. The policy of remuneration of the President and Vice President is based on the Company's salary structure as fixed salary: basic salary, meal allowance and variable salary: allowance (overtime work, missed meals allowance), bonus (year-end bonus, work bonus), the salary level of the position in the industry, the scope of the position within the Company and the contribution to the Company's operating goals. The procedures for determining remuneration are based on the Company's overall performance, future business risks and development trends of the Company, as well as the individual's performance achievement rate and contribution to the Company's performance, so as to provide reasonable remuneration. Performance assessment and the reasonableness of remuneration has been reviewed by the Remuneration Committee and the Board of Directors. In addition, the remuneration system is reviewed at any time according to the actual operating conditions and relevant laws and regulations. The Company's policy and procedures for setting directors', supervisors' and general managers' remuneration have taken into account the future operational risks faced by the Company and are positively correlated with its operational performance in order to achieve a balance between sustainable operation and risk control.

The remuneration of Directors and Supervisors is for the traveling expenses and earnings distribution, and the earnings distribution portion of the remuneration Directors and Supervisors are subject to the Company's profitability. The salary structure of the Chairman of the Board, President, and Vice President is a fixed salary: basic salary, meal allowance; and variable salary: allowance (overtime, missed meals allowance), bonus (year-end bonus, performance bonus), and the salary depends on work performance and the Company's profitability, as well as possible future risks to be taken into consideration. It is reported to the Remuneration Committee and the Board of Directors for approval.

In summary, the Company's policy of paying remuneration for Directors, Supervisors, and President and the procedures for determining remuneration taken into consideration the Company's future operational risks, and are positively related to operating performance to achieve the balance of sustainable operation and risk.

III. Implementation of Corporate Governance:

(I) Implementation of the Board of Directors

A total of six meetings were held by the Board of Directors in 2019, with the directors' attendance listed as follows:

| Title | Name | Attendance Count | By Proxy | Attendance Count | Remarks |
|---|---|---|---|---|---|
| Chairman of the Board | Hsing-Hai Chen | 5 | 1 | 83% | |

| | | | | | |
|---|---|---|---|---|---|
| Director | Ming-Chien Chang | 6 | - | 100% | |
| Director | Chih-Hong Ho | 6 | - | 100% | |
| Director | Yeong-Wen Daih | 6 | - | 100% | |
| Director | Kuan-Chun Chang | 2 | - | 100% | Dismissed on June 13, 2019 |
| Director | Chia-Neng Huang | 2 | 2 | 50% | Appointed on June 13, 2019 |
| Independent Director | Shan-Jen Chow | 6 | - | 100% | |
| Independent Director | Tsin-Fu Jiang | 4 | 2 | 67% | |
| Independent Director | Cheng-Yan Chien | 4 | - | 100% | Appointed on June 13, 2019 |
| Supervisor | Wei-Min Sheng | 2 | - | 100% | Discharged on June 13, 2019 |
| Supervisor | Mao-Hsiung Tu | 2 | - | 100% | Discharged on June 13, 2019 |
| Supervisor | Representative of ESMT Educational Foundation: Fu-Ming Lai | - | - | 0% | Discharged on June 13, 2019 |

Other Matters:

I. Where the proceedings of the meeting of the Board of Directors include one of the following circumstances, state the date, session, topic discussed, opinions of every Independent Director, and the Company's handling of the Independ Directors' opinions:

(I) Matters referred to in Article 14-3 of the Securities and Exchange Act.

| Date of the Meeting | Proposals | Opinions of All Independent Directors and the Company's Handling of These Opinions |
|---|---|---|
| The 7th Board 17th Meeting 2019.03.18 | 1. Approved the resolution to amend the Company’s "Articles of Association".<br>2. Approved the resolution to amend the Company’s "Procedures for the Acquisition and Disposal of Assets".<br>3. Approved the resolution to amend the Company’s "Procedures of Provision of Endorsements/Guarantees".<br>4. Approved the resolution to amend the Company’s "Provision of Financial Loans to Other Parties".<br>5. Approved the evaluation of the independence of the CPAs and the CPAs' accounting firm. | Approved by all Independent Directors |
| The 8th Board 5th Meeting 2020.03.20 | 1. Approved the resolution to amend the Company’s "Articles of Association".<br>2. Approved the amendment to the Company's "Auditor Committee Organization Charter".<br>3. Approved the resolution to amend the Company's "Procedures of the Meetings of the Board of Directors".<br>4. Approved the resolution to amend the | Approved by all Independent Directors |

| | | |
|---|---|---|
| | Company's "Remuneration Committee Organization Charter".<br>5. Approved the resolution to amend the Company's "Self-Evaluation and Peer-Evaluation of the Board of Directors".<br>6. Approved the evaluation of the independence of the CPAs and the CPAs' accounting firm. | |

(II) In addition to the aforementioned matters, other resolutions resolved by the Board of Directors that are objected to, or expressed reservations with record or declaration in writing by the Independent Directors: None.

II. When any Director recuse him/herself for being a stakeholder in certain proposals, the name of the Director(s), the content of the proposals, reasons for recusal and participation in voting shall be stated:

| Board of Directors Date | Names of Directors | Proposals | Reason for Recusal | Voting |
|---|---|---|---|---|
| 2019.8.12 | Hsing-Hai Chen, Ming-Chien Chang, Chih-Hong Ho, Yeong-Wen Daih | The managers' salary adjustment of the Company in FY2019 | The Person(s) in Conflict with the Proposal | The persons recused themselves and did not participate in discussion and voting. |
| | Hsing-Hai Chen, Ming-Chien Chang, Chih-Hong Ho, Yeong-Wen Daih | The Company's Directors and Supervisors' remuneration distribution for FY2018 | The Person(s) in Conflict with the Proposal | The persons recused themselves and did not participate in discussion and voting. |
| | Hsing-Hai Chen, Ming-Chien Chang, Chih-Hong Ho, Yeong-Wen Daih | The managers' and employees' salaries and bonus of the Company for FY2018. | The Person(s) in Conflict with the Proposal | The persons recused themselves and did not participate in discussion and voting. |

III. TWSE/TPEx list companies shall disclose information on the evaluation cycle and period, scope, method and content of the self-evaluation by the Board of Directors (or peers), and complete Appendix 2(2) Bboard of Directors Evaluation.

On March 20, 109, the Company's Board of Directors approved the "Board of Directors Self-Evaluation or Peer Evaluation Precedures".

1. Performance Evaluation of the Board of Directors

| Evaluation Cycle | Evaluation Period | Evaluation Scope | Evaluation methods | Evaluation Content |
|---|---|---|---|---|
| Conducted Annually | Performance evaluation of the Board of Directors for the period from January 1 to December 31, 2020 | Board of Directors | Internal self-evaluation for the Board of Directors | 1. Level of participation in corporate operations.<br>2. Improving Board of Directors decision-making.<br>3. Composition and structure of the Board of Directors.<br>4. Elections and continuous training of the directors.<br>5. Internal control. |

2. Performance evaluation (self and peer evaluation) of the board members

| Evaluation Cycle | Evaluation Period | Evaluation Scope | Evaluation methods | Evaluation Content |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| Conducted Annually | Performance evaluation of the Board of Directors for the period from January 1 to December 31, 2020 | Members of Board of Directors | Internal self-assessment of board members | 1. Knowledge of corporate objectives and mission.<br>2. Knowledge of the director's responsibilities.<br>3. Level of participation in corporate operations.<br>4. Internal relationships and communications.<br>5. Director of professionalism and continuous training.<br>6. Internal control. |

Ⅳ. Targets for strengthening the functions of the Board of Directors (e.g. establishment of the Audit Committee, enhancement of information transparency) and evaluation of the implementation: After the full re-election of directors and supervisors at the shareholders' meeting on June 13, 2019, the Company established the Audit Committee, convened by Mr. Chou, Shuang-Jen, an independent director, to replace the supervisor's function and strengthen the functions of the Board of Directors. On March 20, 2020, the Company's Board of Directors approved the "Board of Directors Self-Evaluation or Peer Evaluation Precedures".

| Evaluation Cycle | Evaluation Period | Evaluation Scope | Evaluation methods | Evaluation Content |
|---|---|---|---|---|
| Conducted Annually | Performance evaluation of the Board of Directors for the period from January 1 to December 31, 2020 | Number of Members | Internal self-evaluation of committee members | 1. Level of participation in corporate operations.<br>2. Recognition of the duties of the functional committee.<br>3. Improvement in the quality of decision making by the functional committee.<br>4. The composition of the functional committee, and the election and appointment of committee members.<br>5. Internal control. |

(II) Implementation of the Audit Committee or Supervisors' Participation in meetings of the Board of Directors:

1. Implementation of the Audit Committee:

   The Company established the Audit Committee after the shareholders' meeting on June 13, 2019. The Audit Committee held 2 meetings in FY2019, which the members of the Audit committee attended as follows:

| Title | Name | Attendance Count | By Proxy | Attendance Count | Remarks |
|---|---|---|---|---|---|
| Independent Director | Shan-Jen Chow | 2 | - | 100% | Convened on June 13, 2019 |
| Independent Director | Tsin-Fu Jiang | 2 | - | 100% | Appointed on on June 13, 2019 |
| Independent Director | Cheng-Yan Chien | 2 | - | 100% | Appointed on June 13, 2019 |

Other matters:

I. The date of the board meeting, the term, content of the proposals, opinion of all Independent Directors, and the handling of the opinion of Independent Directors shall be recorded under the following circumstances:

Where the proceedings of the meeting of the Audit Committee include one of the following circumstances, stat session, topic discussed, resolution of the Audit Committee, and the Company's handling of the Audit Committ opinions:

(I) Items listed in Article 14-5 of the Securities and Exchange Act

| Audit Committee Date | Proposals<br>(Items listed in Article 14-5 of Securities and Exchange Act) | Resolutions not approved by the Audit Committee but approved by over two thirds of all directors |
|---|---|---|
| 1st meeting of the 1st session<br><br>2019.08.12 | 1. The Company's 2019 Q2 financial report.<br>2. The Company's employee stock option exercised to subscribe for ordinary shares. | None |
| | Audit Committee Opinion: No objections or qualified opinion.<br>The Company's actions in response to the opinions of the Audit Committee: Not applicable.<br>Resolution: Approved by the Chairman upon consultation with all the Directors present. | |
| 2nd meeting of the 1st session<br><br>2019.11.12 | 1. The Company's 2019 Q3 financial report.<br>2. The Company's employee stock option exercised to subscribe for ordinary shares.<br>3. The Company's 2020 Audit Plan | None |
| | Audit Committee Opinion: No objections or qualified opinion.<br>The Company's actions in response to the opinions of the Audit Committee: Not applicable. | |

| | | |
|---|---|---|
| | Resolution: Approved by the Chairman upon consultation with all the Directors present. | |
| 3rd meeting of the 1st session<br><br>2020.03.20 | 1.The Company's 2019 Annual Final Statement.<br>2. The Company's 2019 Earnings Distribution Plan.<br>3. Conduct self-assessment of the Company's internal control system in accordance with regulations.<br>4. The Company's employee stock option exercised to subscribe for ordinary shares.<br>5. Assess the independence of CPAs and affiliated accounting firms. | None |
| | Audit Committee Opinion: No objections or qualified opinion.<br>The Company's actions in response to the opinions of the Audit Committee: Not applicable.<br>Resolution: Approved by the Chairman upon consultation with all the Directors present. | |
| 4th meeting of the 1st session<br><br>2020.05.14 | 1. The Company's 2020 Q1 financial report.<br>2. The Company's employee stock option exercised to subscribe for ordinary shares.<br>3. Amendment to the Company's "Operational Procedures for Acquisition or Disposal of Assets" | None |
| | Audit Committee Opinion: No objections or qualified opinion.<br>The Company's actions in response to the opinions of the Audit Committee: Not applicable.<br>Resolution: Approved by the Chairman upon consultation with all the Directors present. | |

(II) Except for the items in the preceding issues, other resolutions which was not approved by the Audit Committee but approved by at least two-thirds of all Board of Directors members: None.

II. In regards to the recusal of Independent Directors from voting due to conflict of interests, the name of the Inde Directors, the proposal content, reasons for recusal due to conflict of interests and voting outcomes should be s

III. Communications between the Independent Directors and the Head of Internal Audit and Accountant (such as tl methods, and results of communication with respect to the Company's financial and business status):

The Head of Internal Audit reports the audit report to the individual independent directors for deficiencies and improvement suggestions found in the audit operation on a monthly basis. In addition, the Head of Internal Audit explains and discusses the Company's financial and business conditions from time to time. No material events have occurred. Relevant reporting matters are reported together in the Audit Committee and the Board of Directors. The period allows the corporate governance unit to fully understand the Company's risk assessment and control status. There are no major abnormalities in the 2019 audit results, and the independent directors have no objections. The previous communication situation is as follows:

| Date of meeting | Nature and discussed issues | Independent Directors' Suggestion |
|---|---|---|
| 2019.03.18 | Report on the internal audit progress.<br>Company's Statement of Self-assessment of Internal Control System for 2018. | The Independent Directors have no opinions and suggestions. |
| 2019.05.13 | Report on the internal audit progress. | The Independent Directors have no opinions and suggestions. |
| 2019.06.13 | Report on the internal audit progress. | The Independent Directors have no opinions and suggestions. |
| 2019.06.27 | Report on the internal audit progress. | The Independent Directors have no opinions and suggestions. |
| 2019.08.12 | Report on the internal audit progress. | The Independent Directors have no opinions and suggestions. |
| 2019.11.12 | Report on the internal audit progress.<br>Discussion on the Company's 2019 audit plan. | The Independent Directors have no opinions and suggestions. |

2. The Company’s CPAs communicate with the governance unit after the quarterly audit or review. In addition, at least two decree announcements are held in the Company each year (obtained the Certificate of the Republic of China Securities and Futures Market Development Foundation). The independent directors and accountants of the Company maintain smooth communication. Communication in 2019 is as follows:

| Date of meeting | Nature and discussion topics | Independent Directors' Suggestion |
|---|---|---|
| 2019.03.18 | Communicate with the governance unit after the review of 2018 consolidated financial report and individual financial report<br>Respond and discuss questions raised by participants | The Independent Directors have no opinions and suggestions. |
| 2019.05.13 | Communicate with the governance unit after reviewing the consolidated financial report for the first quarter of 2019<br>Respond and discuss questions raised by participants | The Independent Directors have no opinions and suggestions. |

| | | | | |
|---|---|---|---|---|
| | 2019.08.12 | Communicate with the governance unit after reviewing the consolidated financial report for the second quarter of 2019<br>Respond and discuss questions raised by participants | The Independent Directors have no opinions and suggestions. | |
| | 2019.11.12 | Communicate with the governance unit after reviewing the consolidated financial report for the third quarter of 2019<br>Respond and discuss questions raised by participants | The Independent Directors have no opinions and suggestions. | |

2. Implementation of the Audit Committee or Supervisors' participation in the meetings of the Board of Directors:
   A total of 6 meetings of the Board of Directors were held in FY2019, with the directors' attendance listed as follows:

| Title | Name | Attended in Person | By Proxy | Attendance Count | Remarks |
|---|---|---|---|---|---|
| Supervisors | Wei-Min Sheng | 2 | - | 100% | Dismissed on June 13, 2019 |
| Supervisors | Mao-Hsiung Tu | 2 | - | 100% | Dismissed on June 13, 2019 |
| Supervisors | Legal Representative of ESMT Educational Foundation: Fu-Ming Lai | - | - | 0% | Dismissed on June 13, 2019 |

Other matters:

I. Composition and Responsibilities of the Supervisors:
   (I) Supervisors' communication with the Company’s employees and shareholders: where the Supervisors may directly contact the employees and shareholders if deemed necessary.
   (II) Communication between the Supervisors, Head of Internatl Audit and Accountant: The Company's Supervisors may investigate the financial and business situation of the Company at any time, and may request the Board of Directors or the managers to submit reports, and contact the Accountant if necessary; the Head of Internal Audit regularly submits the audit report to the Supervisors. The Accountant shall send letters quarterly to Corporate Governance Department to discuss relevant corporate governance matters.

II. Opinions stated by a Supervisor attending the meeting of Board of Directors', the date, session, contents of the case discussed, resolution of the meeting, as well as the Company's handling of the opinions stated by the Supervisor: None.

(III) Implementation of Corporate Governance and the Deviations from the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies, and the Reasons Thereof

| Evaluation Item | Implementation Status (Note 1) | | | Deviations from the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and reasons thereof |
|---|---|---|---|---|
| | Yes | No | Descriptions | |
| I. Does the Company establish and disclose its Corporate Governance Best Practice Principles based on the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies? | V | | The Company has established the "Code of Corporate Governance Practices", which has been disclosed in the Corporate Governance Section of the MOPS. | No material departure |
| II. Shareholding Structure & Shareholders' Rights<br>(I) Did the Company establish an internal procedures for handling shareholder proposals, inquiries, disputes, and litigation? Are such matters handled according to the internal procedures?<br>(II) Did the Company maintain a register of major shareholders with controlling stake as well as a register of persons with ultimate controls over those major shareholders?<br>(III) Did the Company establish and enforce risk controls and firewall systems with its affiliated companies?<br>(IV) Did the Company stipulate internal rules that prohibit company insiders from trading securities using information not disclosed to the market? | V<br>V<br>V<br>V | | 1. The Company has set up e-mails and telephone lines for the relevant personnel to handle matters relating to shareholders' suggestions and disputes at any time.<br>2. The Company has set up a Shareholding Affairs Department and a stock service agency that can keep abreast of the major shareholders of the Company and the ultimate controlling persons of the major shareholders.<br>3. The financial and accounting matters of all affiliated companies of the Company are carried out independently, and are handled in accordance with the "Guidelines for the Transaction between the Company and Specific Companies, the Group and Related Parties" and the "Guideline for Supervision of Subsidiaries", and the risk controls and firewall mechanisms have been implemented.<br>4. The Company has established insider trading guidelines and has told the insiders to strictly abide by the guidelines. | No material departure |
| III. Composition and Responsibilities of the Board of Directors<br>(I) Has a policy of diversity been established and implemented for the composition of the Board of Directors?<br>(II) In addition Remuneration Committee and Audit Committee established according to law, has the company voluntarily established other functional committees?<br>(III) Has the Company established methods to measure the performance of the Board of Directors, and does the Company implement such annually?<br>(IV) Did the Company regularly implement assessments on the independence of the CPAs? | V<br><br>V<br>V | <br>V | 1. The Company adopted the "Corporate Governance Code" in the 17th meeting of the 6th Board of Directors on December 18, 2015, and strengthen the functions of the Directors in Chapter 3 by setting a diversity policy to ensure the diversity and independence of the Directors. Please refer to schedule 1 for the director list of 8th term of the Board. 8 Board members have expertise in leadership, operational judgement, business management, risk handling, industry knowledge, and point of view in global market. One female director will be added to 9th term of the Board to more comhensively fulfill the goals.Please refer to Schedule I.<br>2. The Company will study and propose according to actual needs.<br>3. The Company's Remuneration Committee's organizational rules clearly define the responsibilities of the Remuneration Committee. The | No material departure |

| Evaluation Item | Implementation Status (Note 1) Yes | No | Descriptions | Deviations from the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and reasons thereof |
|---|---|---|---|---|
| | | | Remuneration Committee establishes the relevant policies and regularly evaluates the performance of the Board of Directors.<br>4. The Company independently evaluated the independence of its CPA every year, and submitted the evaluation results to the Board of Directors for review and approval on March 22, 2018 and March 18, 2019. After the evaluation, the Company's CPAs are in compliance with the Company's Independent Evaluation Standards (Please refer to Schedule III). Therefore, the independence of the CPAs should be undoubted, and the CPAs' accounting firm also issued a letter of declaration. | |
| IV. Did the listed company set up or appoint an exclusively (or concurrently) responsible department or personnel to be in charge of corporate governance affairs (including but not limited to furnishing information required for business execution by the Directors and Supervisors, and handling, in accordance with relevant laws, matters related to the meetings of the Board of Directors and Shareholders' Meetings, business registration and the amendments to the registration, and for preparing minutes of the meetings of the Board of Directors and Shareholders' Meetings)? | V | | The President's Office is responsible for handling governance related affairs, and the person in charge is responsible for furnishing information requested by the Directors and Supervisors, handling matters related to meetings of the Board of Directors and Shareholders' Meetings according to the laws, processing company 's registration and the amendments to the registration, and preparing minutes of the meetings of the Board of Directors and Shareholder's Meetings. | No material departure |
| V. Did the Company established a communication channel with stakeholders (including but not limited to the shareholders, employees, customers, and suppliers)? Has a stakeholders' area been established in the Company's website? Are major Corporate Social Responsibility (CSR) topics that the stakeholders are concerned with addressed appropriately by the company? | V | | It is handled by relevant business personnel; interested parties can communicate with the Company at any time if necessary. | No material departure |
| VI. Has the Company appointed a professional shareholder service agency to deal with shareholders' affairs? | V | | The company commissioned Capital Securities Corps. to handle shareholders' affairs and Shareholders' Meetings. | No material departure |
| VII. Information Disclosure<br>(I) Did the Company establish a website to disclose information regarding financial operations and corporate governance?<br>(II) Does the Company have other information disclosure | V<br>V | | 1. The Company has set up a Chinese website to disclose relevant information at any time, and in accordance with the regulations of the competent authority to announce and declare various information at MOPS, and set up automatic links for investors to query for relevant information.<br>2. The Company has appointed designated personnel to collect and disclose | No material departure |

| Evaluation Item | Implementation Status (Note 1) | | | Deviations from the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and reasons thereof |
|---|---|---|---|---|
| | Yes | No | Descriptions | |
| channels (e.g. establishing an English website, appointing designated people to handle information collection and disclosure, creating a spokesman system, webcasting investor conferences, etc.)?<br>(III) Did the Company declare annual financial reports two months after the end of fiscal year, and declare Q1, Q2, and Q3 financial reports and monthly operational status before the prescribed deadline? | | | various information. The person in charge shall hold irregular corporate briefings from time to time, publicizes the Company's operation overview, and employed a spokesperson and an acting spokesperson.<br>3. The Company announces and declares annual financial reports three months after the end of fiscal year, and timely announces and declares Q1, Q2, and Q3 financial reports and monthly operational status before the prescribed deadline. | |
| VIII. Is there any other important information to facilitate a better understanding of the Company's corporate governance practices (including but not limited to employee rights, employee wellness, investor relations, supplier relations, stakeholder rights, Directors' and Supervisors' training records, implementation of risk management policies and risk evaluation measures, implementation of customer policies, and participation in liability insurance by the Directors and Supervisors)? | V | | 1. Employees' rights and care: the Company upholds the belief of taking good care of its employees, manages employees in a humane manner, and cooperates with various welfare measures to establish good relationships with the employees.<br>2. Investor relations, supplier relations, and rights of interested parties: the Company maintains good relationships with all related parties, and the Company's relevant business personnel communicates with each related party to deal with each related party's problems and suggestions.<br>3. The Independent Directors and Supervisors currently selected by the Company are all professionals who are finance professionals or in the fields related to the Company's business. During the meetings of the Board of Directors, both the Independent Directors and Supervisors can present their opinions and understand the Company's operations situation.<br>4. Continuing education of the Directors and Supervisors are attached in Schedule II.<br>5. Implementation of risk management policies and measurement standards: The internal control system and various measures have been established in accordance with the law, various risk management and evaluations have been carried out, and the Internal Audit Department reviews the implementation of the internal control system regularly and irregularly.<br>6. Implementation of customer policies: The Company maintains good relationships with its customers, and provides various services to its customers in accordance with internal management methods, and takes customer satisfaction as the highest guiding principle.<br>7. The Company has purchased liability insurance for its Directors, Supervisors and key employees and reported to the Board of Directors. | No material departure |

| Evaluation Item | Implementation Status (Note 1) | | | Deviations from the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and reasons thereof |
|---|---|---|---|---|
| | Yes | No | Descriptions | |
| IX. Describe improvements made according to the corporate governance assessment made in the recent financial year by the Corporate Governance Center of the Taiwan Stock Exchange Corporation (TWSE), and provide prioritized improvements and measures to be taken for improvements that have yet to be carried out.<br>To implement corporate governance, integrity management and corporate social responsibility, the Company has established various measures such as "Corporate Governance Code", "Integrity Management Code", "Corporate Social Responsibility Policy" and "Corporate Social Responsibility Practice Code" and disclosed the above in the corporate governance section on MOPS. The Company will gradually implement information disclosure to improve the accuracy and timeliness of information disclosure depending on the operating conditions and needs in the future. | | | | |

Note 1: Describe briefly in implementation status column whether the result of implementation is "Yes" or "No".

Note 2: The Company's self-evaluation report is conducted in accordance with the Corporate Governance Self-Assessment Program, which is evaluated and explained by the Company, and reported on each evaluation program of the current operation and implementation of the Company.

Schedule I: Implementation status of diversification of the members of the Board of Directors

| Core projects of diversity / Names of directors | Basic composition | | | | | | Industry experience | | | Professional capabilities | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Nationality | Gender | Also serve as an employee of the Company | Age | Term of office of Independent Director | | Bank | Security | Asset Management | Accounting | Law | Information Technology | Risk Management |
| | | | | 61 to 70 | 3 to 9 years | More than 9 years | | | | | | | |
| Hsing-Hai Chen | Taiwan | Male | V | V | | | | | V | | | V | V |
| Ming-Chien Chang | Taiwan | Male | V | V | | | | | V | | | V | V |
| Chih-Hong Ho | Taiwan | Male | V | V | | | | | V | | | V | V |
| Yeong-Wen Daih | Taiwan | Male | V | V | | | | | V | | | V | V |
| Chia-Neng Huang | Taiwan | Male | | V | | | | | V | | | V | V |
| Shan-Jen Chow | Taiwan | Male | | V | | V | | | V | V | V | | V |
| Tsin-Fu Jiang | Taiwan | Male | | V | | V | | | V | | | | V |
| Cheng-Yan Chien | Taiwan | Male | | V | V | | V | V | V | V | | | V |

Schedule II: Continuing education of the Directors and Supervisors in FY2019 is as follows:

| Title | Name | Organizer | Training Courses | Hours of Courses | Compliance with "Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEx Listed Companies" |
|---|---|---|---|---|---|
| Chairman of the Board | Hsing-Hai Chen | 1. Securities and Futures Institute | 1. The Company's countermeasures under the implementation of the Economic Substantive Law and the implementation of global anti-tax avoidance measures<br>2. Explanation of Important Legal Issues on China and Taiwan Investment, Joint Ventures, and Mergers and Acquisitions<br>3. Promotion Seminar on Legal Compliance for Equity Trading by Internal Staff in Listed Companies 2019 | 6H(1, 2) | Yes |
| Director | Ming-Chien Chang | | | 6H(1, 2) | Yes |
| Director | Chih-Hong Ho | | | 6H(1, 2) | Yes |
| Director | Yeong-Wen Daih | | | 6H(1, 2) | Yes |
| Director | Chia-Neng Huang | | | 9H(2, 4, 5) | Yes |
| Independent Director | Shan-Jen Chow | 2. Taiwan Corporate Governance Association | 4. Corporate Governance and Securities Regulations<br>5. Cooperation of the Board of Directors and the management team - the operation of the Board of Directors and the function of the directors | 6H(1, 2) | Yes |
| Independent Director | Tsin-Fu Jiang | | | 6H(1, 2) | Yes |
| Independent Director | Cheng-Yan Chien | 3. Taiwan Academy of Banking and Finance | 6. Corporate Governance and Corporate Sustainability Training Course | 12H(1, 2, 3, 6) | Yes |

Schedule III: Evaluation Criteria for the Independence of CPAs is as follows:

| Compliance with Independence | Yes | No | Remarks |
|---|---|---|---|
| Is the CPAs not a Director or Independent Director at the Company or its affiliated companies? | V | | |
| Is the CPAs not a shareholder of the Company or its affiliated companies? | V | | |
| Is the CPAs not paid by the Company or its affiliated companies? | V | | |
| Has the CPAs provided auditing services to the Company for less than seven years? | V | | |
| Is it confirmed that the CPAs has complied with his/her accountant firm's CPA independence regulations? | V | | |
| Are the former CPAs of the Company from the same firm of the current CPAs, within a year after stepping down, not serving as the Company's Director, manager or any position with substantial impact on audit results? | V | | |

(IV) Composition, duties, and implementation of the Remuneration Committee:

I. Information regarding the members of the Remuneration Committee:

| Identity | Qualification / Name | Meets one of the following professional qualifications, with at least five years of work experience: Currently serving as a lecturer or higher position in a private or public college or university in the field of business, law, finance, accounting, or any related field required in business. | Currently serving as a judge, prosecutor, lawyer, accountant, or any other professional practice or technician that must undergo national examinations and specialized license | Work experience in commerce, legal affairs, finance, accounting, or related experience required by business | Meets the Status of Independence (Note 1): 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | Number of other public companies where the individual concurrently serves as a member of Remuneration Committee | Remarks (Note 2) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Independent Director | Shan-Jen Chow | | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | - | NA |
| Independent Director | Tsin-Fu Jiang | ✓ | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | - | NA |
| Independent Director | Cheng-Yan Chien | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | - | NA |

Note 1: Please tick "" in the corresponding boxes if any committee member have met any of the following criteria during the two years prior to being elected or during the term of office.

(1) （1）Not an employee of the Company or any of its affiliates.

(2) （2）Not a Director or Supervisor of the company or any of its affiliates. Not applicable in cases where the person is an Independent Director of the Company, its parent company, or any subsidiary as appointed in accordance with the Act or with the laws of the registered countries.

(3) （3）Not a natural person shareholder who holds more than one percent (1%) of issued shares or is ranked top ten in terms of the total number of shares held, including the shares held in the name of the person’s spouse, minor children, or in the name of others.

(4) （4）Not a manager listed in (1) or a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship listed in (2) and (3).

(5) Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of issued shares of the company or of a corporate shareholder that ranks among the top five in shareholdings (Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.).

(6) Not a director, supervisor or employees of another company controlled by the same person with more than half of the Company's director seats or voting shares. Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.

(7) Not a director, supervisor, or an employee of a company where the chairman, president or any equavalent position are held by the same person or by his/her spouse seperately. Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.

(8) Not a director, supervisor, manager, 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 (excluding specified companies or institutions holding more than 20% but less than 50% of the total issued shares of the Company, and

independent directors appointed by both the Company and its parent company, subsidiary or subsidiaries under the same parent company pursuant to this regulation or the local regulations).

(9) Not a professional individual who is an owner, partner, director, supervisor, or manager of a sole proprietorship, partnership, company, or institution, or a spouse thereof, that provides commercial, legal, financial, accounting services or consultation to the Company or its affiliated companies, or those made an accumulated profit of less than NT$500,00 over the last 2 years. However, members of the special committee on remuneration, public acquisition review, or merger and acquisition who perform their functions in accordance with the provisions of Securities and Exchange Act or Business Mergers and Acquisitions Act and other relevant regulations shall not be subject to this provision.

(10) No condition defined in Article 30 of the Company Act has appeared.

II. Scope of Responsibilities of the Remuneration Committee:

1. Periodically review this Charter and make recommendations for amendments.
2. Establish and regularly review the annual and long-term performance targets and remuneration policies, systems, standards, and structures of the Directors, Supervisors, and managers.
3. Regularly evaluate the performance targets of the Directors, Supervisors, and managers of the Company, and establish the content and amount of their remuneration.

III. Attendance of Members at Remuneration Committee Meetings

(1) The Remuneration Committee of the Company is consist of three members.

(2) Term of office: June 13, 2019 to June 12, 2022. A total of two (2) meetings (A) were conducted by the Remuneration Committee in the most recent financial year, where the qualifications and attendance of the members are as follows:

| Title | Name | Attendance Count (B) | By Proxy | Rate of Actual Attendance (%) (B/A) | Remarks |
|---|---|---|---|---|---|
| Convener | Shan-Jen Chow | 2 | - | 100% | |
| Member | Tsin-Fu Jiang | 2 | - | 100% | |
| Member | Cheng-Yan Chien | 2 | - | 100% | |

Other matters:

I. If the Board of Directors does not adopt or wishes to amend the proposals of the Remuneration Committee, please state the date and session of the meeting of the Board of Directors, proposals, resolutions from the Board of Directors, and handling of the Remuneration Committee's opinions (such as the difference between the salary and remuneration approved by the Board of Directors and those proposed by the Remuneration Committee and the reason therefo): None.

II. If the resolutions to which the members of the Remuneration Committee have an objection or reservation are recorded or written, please state the date and session of the meeting of the Remuneration Committee, proposals, opinions of the members, and handling of the opinions: None.

III. Remuneration Committee meeting and resolution results and the Company's handling of members' opinions in the most recent year:

| Remuneration Committee | Resolution content and results |
|---|---|
| 1st meeting of the 4th session<br>2019.8.12 | 1. Adjustment of salaries of the Company's managerial officers for 2019.<br>2. Distribution of 2018 directors' and supervisers' remuneration<br>3. Distribution of 2018 employees' compensation and bonus paid to managerial officers. |
| | Audit Committee Opinion: No objections or qualified opinion.<br>Resolution results: Except for proposal 2. Members Shan-Jen Chow, Tsin-Fu Jiang and Cheng-Yan Chien are stakeholders (independent directors) of the proposal, they recused themselves individually and the proposal was discussed and approved by other members. |

| | | |
|---|---|---|
| | | The rest were approved without objection by the Chairman upon consultation with all the Directors present.<br>The Company’s response to the opinions of the Audit Committee: Submitted to the Board meeting and approved by all the Directors present. |
| | 2nd meeting of the 4th session 2019.11.12 | Proposal of the annual plan of the Company's Remuneration Committee for 2020. |
| | | Audit Committee Opinion: No objections or qualified opinion.<br>Resolution results: Approved without objection by the Chairman upon consultation with all the Directors present.<br>The Company's actions in response to the opinions of the Audit Committee: Not applicable. |

(V) Fulfillment of Corporate Social Responsibility and Difference with the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies and Reasons thereof:Corporate Social Responsibility

<table>
<tr><th rowspan="2">Evaluation Item</th><th colspan="3">Implementation Status (Note 1)</th><th rowspan="2">Deviations from the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies and reasons thereof</th></tr>
<tr><th>Yes</th><th>No</th><th>Summary (Note 2)</th></tr>
<tr><td>I. The Implementation of Corporate Governance<br>(I) Has the Company set out Corporate Social Responsibility (CSR) policies and systems and reviewed the effectiveness of the CSR actions?<br>(II) Has the Company provided regular training on CSR topics?<br>(III) Does the Company establish an exclusively (or concurrently) dedicated unit that is authorized by the Board to be in charge of proposing the corporate social responsibility policies and reporting to the Board?<br>(IV) Has the Company adopted reasonable salary remuneration policies, and integrated the employee performance appraisal system with its corporate social responsibility policy, as well as establishing an effective reward and disciplinary system?</td><td>V<br>V<br>V<br>V</td><td></td><td>1. The Company has set out the Corporate Social Responsibility (CSR) policies and disclosed in the corporate governance section on MOPS. The Company has a long-term care for special education groups and cultural and educational activities, cooperates and supports the operation of the "ESMT Educational Foundation". Combines the strength of relevant groups, it supports children who have lost their relationship, and sponsors cultural, artistic and educational-related public welfare activities. The Company also reviews the effectiveness according to the annual plan.<br>2. The Company's Directors and Supervisors from time to time participate in corporate governance related courses organized by the Company or the competent authority, and convey the requirements of corporate social responsibility through the management level.<br>3. The President's Office of the Company is responsible for the planning, implementation and promotion of corporate social responsibility related matters, and organizing charity events of the "EMST Educational Fund".<br>4. The Company has established employee performance assessment procedures to evaluate employees' performance. The salary and remuneration are adjusted according to the evaluation results. Rewards and penalties are stipulated in the "Work Rules" with reference to the requirement of the corporate social responsibility policies.</td><td>No material departure</td></tr>
<tr><td>II. The Development of Sustainable Environment<br>(I) Is the Company committed to improving usage efficiency of various resources and utilizing renewable resources with reduced environmental impact?<br>(II) Has the Company established a suitable Environment Management System (EMS) according to the nature of its industry?<br>(III) Is the Company concerned with global climate change and</td><td>V<br>V<br>V</td><td></td><td>1. The Company is committed to green product design and has obtained Green Partner certifications from multiple customers. At present, the Company's products are in compliance with international standards, such as RoHS, REACH, etc.<br>2. To implement the environmental management, the Company established an environmental management system in 2007, and obtained ISO 14001 certification through verification in January 2008, and continued to</td><td>No material departure</td></tr>
</table>

| Evaluation Item | Implementation Status (Note 1) Yes | No | Summary (Note 2) | Deviations from the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies and reasons thereof |
|---|---|---|---|---|
| how it may affect its business activities? Has the Company implemented Greenhouse Gas (GHG) inventory checks and developed strategies for reducing energy consumption, carbon emissions, and greenhouse gas production? | | | promote environmental improvement related programs.<br>3. The Company conducts temperature control of air conditioners in the summer and uses energy effectively to achieve energy-saving and carbon reduction; and improves the performance of energy-saving and carbon reduction in accordance with the ISO 14001 management system. | |
| III. The Preservation of Public Welfare<br>(I) Has the Company formulated management policies and procedures in accorrdance with relevant regulations and international human rights treaties?<br>(II) Has the Company established an employee grievance mechanism and channels to handle complaints and provide appropriate solutions?<br>(III) Does the Company provide a healthy and safe work environment, and does the Company organize health and safety training for its employees on a regular basis?<br>(IV) Has the Company established channels for regular communication with the employees, and does the Company reasonably inform the employees of any significant changes in operations that may have material impacts?<br>(V) Has the Company established effective career development and training plans for its employees?<br>(VI) Has the Company formulated a consumer rights policy and grievance procedures for research and development, purchase, production, operations, and services?<br>(VII) Does the Company comply with related regulations and international standards in terms of product marketing and labeling?<br>(VIII) Does the Company evaluate whether there is any record of a supplier's impact on the environment and society before any commercial dealings?<br>(IX) Do contracts entered into between the Company and its major suppliers include terms stipulating that the contract may be terminated or rescinded at any time if the supplier | V<br>V<br>V<br>V<br>V<br>V<br>V<br>V<br>V | | 1. .Employee selection, training, appointment, retention, benefits and retirement of the Work Rules established by the Company are in compliance with domestic labor regulations and the International Bill of Human Rights.<br>2. The Company has a dedicated hotline and e-mail to respond or provide opinions for complaints of employees at any time. The content of the complaint shall be handled according to the Company's relevant measures.<br>3. The Company established the Labor Safety and Health Committee in October 2009 to continuously strengthen the hardware and software facilities of work environment safety and personnel protection, in compliance with the relevant domestic laws and regulations, and successively promote and implement the related improvement programs.<br>4. The Company manages meetings and communication meetings at all levels to explain the Company's operating status and future prospects. In addition, the Company holds labor-management meetings, through which communication and discussion are made between the Company and the employeesThe Company's management meetings and communication meetings at all levels explain the Company's operating status and future prospects. In addition, there are multiple communication channels that can be communicated with each other at any time.<br>5. The Company enrolls in various seminars and courses related to career planning in accordance with the career planning of its employees. The Company links the growth and development of the Company with the career development of its employees, so that both the employer and employee can grow together. The Company's Welfare Committee allocates subsidies for employee education and training every year.<br>6. The Company values customer feedback, and there is a special department | No material departure |

| Evaluation Item | Implementation Status (Note 1) | | | Deviations from the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies and reasons thereof |
|---|---|---|---|---|
| | Yes | No | Summary (Note 2) | |
| has violated the corporate social responsibility policy and caused a significant negative impact on the environment and society? | | | that execute and deal with the relevant issues related to complaints in accordance with the "Customer Appeal Handling Procedures"<br>7. The marketing and labeling of the Company's products and services are in compliance with relevant laws and regulations and international standards, such as product packaging are marked with RoHS.<br>8. Before cooperating with other companies, the Company will fully understand whether the counterparties have bad records that affect the environment and society.<br>9. When the Company signs a contract with a major supplier, its content should include provisions of the corporate social responsibility policies of both parties to abide by. As much as possible, the Company tries to fully understand whether the counterparty violates its corporate social responsibility, and incorporate it into the commercial contract accordingly. | |
| IV. Enhanced Disclosure of Corporate Social Responsibility Information<br>(I) Does the Company disclose relevant and reliable information regarding its corporate social responsibility on its website and the Market Observation Post System (MOPS)? | V | | 1. The Company has disclosed the implementation of social responsibilities on its website and in the report of the Annual Shareholders' Meeting. | No material departure |
| V. If the Company has established the corporate social responsibility best practice principles based on the "Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies", please describe any discrepancy between the Principles and their implementation: To practice corporate social responsibility and achieve sustainable development goals, the Company established "Corporate Social Responsibility Practice Code" with reference to the "Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies" and the internal and external environment of the Company, to manage the Company's economic, environmental and social risks and impacts. The Company also assumes corporate citizenship responsibility, enhances national economic contributions, improves the quality of life of its employees, the communities, and society, and promotes competitive advantages based on corporate responsibility. | | | | |
| VI. Other important information to facilitate better understanding of the Company's Corporate Social Responsibility practices:<br>1. Corporate Social Responsibility Promotion Unit<br>The President's Office of the Company is responsible for the planning, implementation and promotion of corporate social responsibility related matters. It integrates corporate social responsibility into the Company's business strategy in a purposeful, systematic and organized long-term manner, and fulfills corporate social responsibility.<br>2. Risk Assessment and Policy<br>Based on the principle of corporate social responsibility, the Company conducts risk assessments on important issues, and formulates the following risk management policies or strategies based on the assessed risks: | | | | |

| Evaluation Item | Implementation Status (Note 1) | | | Deviations from the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies and reasons thereof |
|---|---|---|---|---|
| | Yes | No | Summary (Note 2) | |

| Major Issues | Assessment Item | Risk management policy or strategy |
|---|---|---|
| Environmental Sustainability | Environmental Protection | As a member of the global semiconductor product supply chain, ESMT is obligated to take responsibility for the sustainable development of the environment. Through friendly environment, energy-saving and carbon reduction, and the formulation of safety and health policies, all business activities that affect the environment, safety and health should comply with legal requirements, reduce the negative impact on the environment, safety and health, and aim at increasing resource recycling. In addition, in line with international environmental protection laws and customers' requirements for environmental protection, ESMT has also established a green product management system, making continuous improvement through the institutionalized PDCA management cycle, and obtained Green Partner certification from major international manufacturers. The products also comply with RoHS, REACH and other regulatory requirements.<br>In the future, ESMT's main goal of environmental sustainability will continue to work hard and improve on green product design, launch more energy-saving and low environmental load products, and contribute to the sustainable development of the environment. |
| Social Responsibility | Workplace Safety | To prevent occupational disasters and protect the safety and health of employees, ESMT has established an occupational safety and health committee. Through internal and external safety inspections and regular committee meetings, labor safety and health related issues are discussed, various labor safety and health related policies are also implemented.<br>Through education and training, the Company conveys the Company's commitment and relevant policy requirements, enabling employees and contractors to gain an understanding of the safety and health regulations and policies. The Company continues to improve through the institutionalized PDCA management cycle and implements the emergency response plan to ensure the achievement of safety and health goals and workplace safety. |
| | Social Care | The Company has long-term care for special education groups and cultural and educational activities, providing resources and manpower, cooperating with the operation of the "ESMT Educational Foundation", combining the strength of related groups, |

| Evaluation Item | Implementation Status (Note 1) | | | Deviations from the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies and reasons thereof |
|---|---|---|---|---|
| | Yes | No | Summary (Note 2) | |

| | | |
|---|---|---|
| | | helping children who have lost their families, and sponsoring or organizing culture, art and education, related public welfare activities, and reviewing the effectiveness according to the annual plan, to achieve the goal of caring for the society and giving back to the society. |
| Corporate Governance | Social-economy Legal Compliance | The Company ensures the achievement of the Company's operating efficiency by establishing a governance organization that meets the requirements and implements internal control mechanisms, thereby rewards shareholders, employees, and society. At the same time, through the establishment and promotion of relevant systems, the Company ensures that all personnel and operations shall strictly comply with relevant laws and regulations. |

3. The Company cooperates and supports the "ESMT Educational Foundation" to participate in the support of children with disability/handicap and sponsor public welfare activities related to culture, art and education:
   1. Set up scholarships to reward students for learning.
   2. Sponsor or co-organize various education, arts and literature and related public welfare activities and associations.
   3. Promote high-tech education and talent cultivation.
   4. Reward outstanding, creative talents and those who have participated in various competitions with outstanding performance.
   5. Donate books or educational equipment to schools.
   6. Other relevant public welfare educational affairs that meet the purpose of the establishment of the Association.

   The 2019 implementation plan is as follows:

   a. Sponsored the fund of Hsinchu Toranado Boxing Education Association.

   b. Sponsored the operating fund of Hsinchu Symphony Orchestra.

   c. Sponsored the student sewing hand-made course and teacher training project fund of Charity Foundation Hsinchu Catholic Social Welfare Foundation.

   The rest is omitted

For the related content, please refer to the website of ESMT Educational Foundation: http://www.esmt.com.tw/foundation/index.asp

VII. A clear statement shall be made below if the Corporate Social Responsibility report were verified by external certification institutions: Not applicable.

(VI) Compliance with ethical corporate management, and Deviations from the Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies and reasons thereofImplementation of Ethical Corporate Management:

| Evaluation Item | Implementation Status (Note 1) | | | Deviations from the Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies and the reasons thereof |
|---|---|---|---|---|
| | Yes | No | Descriptions | |
| I. Establishment of Ethical Corporate Management Policies and Programs<br>(I) Does the Company declare its ethical corporate management policies and procedures in its guidelines and external documents, as well as the commitment from its Board of Directors to implement such policies?<br>(II) Does the Company establish policies to prevent unethical conduct with clear statements regarding relevant procedures, guidelines of conduct, punishment for violation, rules of appeal, and the commitment to implement the policies?<br>(III) Does the Company establish appropriate precautions against high potential unethical conduct or listed activities stated in Article 7, Paragraph 2 of the Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies? | V<br>V<br>V | | 1. The Company and the Group of Companies clearly specified in their rules and external documents the ethical corporate management policies and the commitment by the Board of Directors and the management for rigorous and thorough implementation of such policies, and carried out the policies in internal management and in commercial activities.<br>2. The Directors, managers, and employees of the Company shall not, directly or indirectly, provide, promise, demand or accept any improper benefits or engage in other unethical or illegal acts or breach their fiduciary duties during the course of commercial activities in order to acquire or maintain their personal interest.<br>3. When establishing the prevention program, the Company shall analyze business activities within the business scope which may be at a higher risk of being involved in an unethical conduct, and strengthen the preventive measures. | No material departure |
| II. Implementation of Ethical Corporate Management<br>(I) Does the Company evaluate business partners' ethical records and include ethics-related clauses in business contracts?<br>(II) Has the Company established dedicated department under the supervision of the Board of Directors, to promote corporate ethical management and which regularly report to the Board of Directors on the implementation status?<br>(III) Has the Company established policies to prevent conflicts of interests, provided proper channels of appeal, and enforced these policies and channels accordingly?<br>(IV) Has the Company established effective systems for | V<br>V<br>V<br>V | | 1. Prior to any commercial transactions, the Company shall take into consideration the legality of their agents, suppliers, clients, or other trading counterparties and whether any of them are involved in unethical conduct, and shall avoid any dealings with persons so involved. When entering into contracts with its agents, suppliers, clients, or other trading counterparties, the Company shall include in such contracts terms requiring compliance with the integrity management policy.<br>2. The President's Office of the Company is responsible for the formulation and supervision of the corporate integrity management policy and the implementation of the plan, and reports to the Board of Directors on a regular basis.<br>3. The Company shall adopt policies for preventing conflicts of interest to identify, monitor, and manage risks potentially resulting from unethical | No material departure |

| Evaluation Item | Implementation Status (Note 1) | | | Deviations from the Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies and the reasons thereof |
|---|---|---|---|---|
| | Yes | No | Descriptions | |
| both accounting and internal controls to implement ethical corporate management, and are they audited by either internal auditors or CPAs on a regular basis?<br>(V) Does the Company regularly hold internal and external educational trainings on ethical corporate management? | V | | conducts, and shall also offer appropriate means for the Directors, Supervisors, managers, and other stakeholders attending or be present at the meetings of the Board of Directors to voluntarily explain whether their interests would potentially be conflicted with those of the Company.<br>4. The Company shall establish effective accounting systems and internal control systems for business activities that are potentially at a higher risk of being involved in unethical conducts to prevent from having under-the-table accounts or keeping secret accounts, and conduct reviews regularly to ensure that the design and enforcement of the systems are effective.<br>The Internal Audit Department regularly reviews the compliance of various systems and reports to the Board of Directors.<br>5. The Company promotes the concept of integrity management at all levels of management meetings and communication meetings. In addition, there are a variety of communication channels that can be communicated at any time. | |
| III. Status of Enforcing Whistle-blowing Systems in the Company<br>(I) Has the company established a concrete whistleblowing and rewarding system, and set up accessible methods for whistleblowers, and designate appropriate and dedicated personnel to investigate the accused?<br>(II) Has the Company established an SOP for investigation and relevant confidentiality mechanism for all whistleblowing cases?<br>(III) Does the Company take any measures to protect whistleblowers so that they are safe from mishandling? | V<br><br><br><br><br><br>V<br><br><br>V | | 1. The Company has strengthened the promotion of ethical concepts to employees and established a dedicated hotline and e-mail, where employees can report to the management if they suspected or identified violations of laws and regulations or ethical standards. In addition, a reward and punishment system is stipulated in the "Work Rules" and announced to all employees of the Company.<br>2. The Company has a dedicated complaint hotline and e-mail to provide employees with timely response and opinion. Complaints are handled according to the Company's relevant measures. To protect whistleblowers, confidentiality terms are stipulated in the procedures. The Company will take appropriate measures depending on the seriousness of the circumstances.<br>3. The measures of the Company stipulated protection measures for the whistleblowers to ensure the quality and fairness of the investigation and avoid unfair treatment. | No material departure |

<table>
<tr><th rowspan="2">Evaluation Item</th><th colspan="3">Implementation Status (Note 1)</th><th rowspan="2">Deviations from the Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies and the reasons thereof</th></tr>
<tr><th>Yes</th><th>No</th><th>Descriptions</th></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>IV. Enhanced Disclosure of Corporate Social Responsibility Information<br>(I) Has the Company disclosed the content of its integrity operation principles and its result of implementation on its website and MOPS?</td><td>V</td><td></td><td>1. The Company has established the "Code of Integrity Management", which has been disclosed in the Corporate Governance section on MOPS.</td><td>No material departure</td></tr>
<tr><td colspan="5">V. If the Company has established the Corporate Social Responsibility best practice principles based on the "Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies", please describe any discrepancy between the Principles and their implementation: To establish a corporate culture and sound development of integrity management, the Company refers to the "Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies", and the internal and external environment of the Company, and formulate the "Code of Integrity Management" to comply with.</td></tr>
<tr><td colspan="5">VI. Other important information to facilitate a better understanding of the Company's ethical corporate management policies (e.g. reviews and amendments to its policies).<br>The Company should operate its business in a fair and transparent manner based on the principle of good faith management. Designated people are in place as regular communication channels with the customers to keep up with the customer dynamics at any time through a good mechanism to ensure the integrity of both parties. The Company also pays attention to the relevant laws and regulations on integrity management at any time, based on which it reviews and improves the relevant operation standards of the Company and enhances the effectiveness of the Company's integrity management.</td></tr>
</table>

Note 1: Describe briefly in implementation status column whether the result of implementation is "Yes" or "No".
Note 2: Companies that have compiled CSR reports may specify ways to access the report and indicate the page numbers of the cited pages.

(VII) Please disclose the access to the Company's corporate governance principles and related rules and regulations:

The Company has established the "Corporate Governance Code" and related regulations, which have been disclosed in the Corporate Governance section of MOPS, which is available for access to the investors (including shareholders).

(VIII) Other important information that is sufficient to enhance the understanding of the operation of corporate governance must be disclosed together: None.

(IX) Status of Internal Control System:

1. Statement of Internal Control:

Elite Semiconductor Memory Technology Inc

Date: March 20, 2020

This Statement of Internal Control System is issued based on the self-assessment of the Company for the Financial Year 2019.

I. The Company acknowledges that the establishment, implementation, and maintenance of an internal control system is the responsibility of the Board of Directors and managers, and the Company has established an internal control system. The internal control system is designed to provide reasonable assurance for the effectiveness and efficiency of the operations (including profitability, performance and protection of assets), reliability, timeliness, and transparency of reporting, and compliance with applicable laws and regulations.

II. The internal control system has innate limitations. No matter how robust and effective the internal control system, it can only provide reasonable assurance of the achievement of the three aforementioned goals. In addition, the effectiveness of the internal control system may vary due to changes in the environment and conditions. However, the internal control system of the Company has self-monitoring mechanisms in place, and the Company will take corrective action against any defects identified.

III. The Company uses the assessment items specified in the Guidelines Governing Establishment of Internal Control Systems by Public Companies (hereinafter referred to as the "Guidelines") to determine whether the design and implementation of the internal control system are effective. Based on the process of control, the assessment items specified in the Guidelines divide the internal control system into five constituent elements: 1. control environment; 2. risks assessment; 3. control activities; 4. information and communications; and 5. monitoring activities. Each constituent element includes a certain number of items. For more information on such items, refer to the Guidelines.

IV. The Company has already adopted the aforementioned Guidelines to evaluate the effectiveness of its internal control system design and operating effectiveness.

V. Based on the findings of such evaluation, the Company believes that, on December 31, 2019, it has maintained, in all material respects, an effective internal control system (that includes the supervision and management of its subsidiaries), to provide reasonable assurance over the Company's operational effectiveness and efficiency, reliability, timeliness, transparency of reporting, and compliance with applicable rulings, laws, and regulations.

VI. This statement will constitute the main content of the Company's Annual Report and the Prospectus, which will be disclosed to the public. Any falsehood or concealment with regard to the above contents will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Act.

VII. This statement has been approved by the Company's Board of Directors on March 20, 20120, and out of the 8 members of the Board of Directors in attendance, none had objected to it and all consented to the contents expressed in this statement.

Elite Semiconductor Memory Technology Inc

Chairman of the Board: Hsing-Hai Chen Signature and Seal

President: Ming-Chien Chang Signature and Seal

2. Any CPA commissioned to conduct an audit on the Internal Control System shall disclose the CPA’s audit report: None.

(X) The Company and its internal personnel that have been punished according to law in the most recent financial year and up to the date of publication of the Annual Report, and the punishment imposed by the Company on its internal personnel for violating internal control system regulations, and major deficiencies and improvements: None.

(XI) Important resolutions of the Shareholders' Meetings and the meetings of the Board of directors from the most recent financial year up to the date of publication of the Annual Report.

Board of Directors:

| Date | Content of Proposals and Follow-up Actions | Issues specified in Article 14-3 of the Securities and Exchange Act | Objections or Qualified Opinion of the Independent Directors |
|---|---|---|---|
| The 7th Board 17th Meeting March 18, 2019 | (1) Approved the resolution to distribute employees' bonus and Directors' bonus for FY2018. | | |
| | (2) Approved the Company's Final Statement for FY2018. | | |
| | (3) Approved the Company's Statement of Self-assessment of Internal Control System for FY2018. | | |
| | (4) Approved the Company's allowance of employee stock option to be subscribed for ordinary shares of NT$ 62.30 - 319 per share until March 31, 2019. If the employee exercises the stock option, the Chairman of the Board is authorized to set the actual number of shares issued within the range of 1,000 shares to 621,151 shares. The record date for the issuing of new shares is set at March 31, 2019. The Chairman of the Board is authorized to amend the date if any change arises. | | |
| | (5) Approved the resolution of the Company's earnings distribution for FY2018. | | |
| | (6) Approved the resolution to amendment the Company's "Articles of Association". | V | |
| | (7) Approved the resolution to amend the Company's "Procedures of the Meeting of the Board of Directors." | V | |
| | (8) Approved the resolution to amend the Company's "Directors and Supervisors Election Guidelines". | V | |
| | (9) Approved the resolution to amend the Company's "Procedures for the Acquisition and Disposal of Assets". | V | |
| | (10) Approved the resolution to amend the Company's "Procedures of Provision of Endorsements/Guarantees". | V | |
| | (11) Approved the resolution to amend to the Company's "Provision of Financial Loans to Other Parties". | V | |
| | (12) Approves the resolution to establish the Company's "Audit Committee Charter". | V | |
| | (13) Approved the business plan and budget plan for FY2019. | | |
| | (14) Approved the resolution to apply for the credit line with various financial institutions in response to the Company's capital requirement. | | |
| | (15) Approved resolution to propose for re-election upon the expiry of the term of the Directors and Supervisors. | | |
| | (16) Approved resolution of the nomination and review of the Independent Director candidates. | | |
| | (17) Approved the resolution of the nomination of the general Director candidates. | | |
| | (18) Removal of the non-competition clauses for newly-appointed Directors. | | |
| | (19) Approved the resolution to convene the 2019 General Shareholders' Meeting. | | |
| | (20) Approved the resolution of the period and venue for accepting proposals from shareholders. | | |
| | (21) Approved the resolution of the period and venue for accepting the nomination of Directors (Independent Directors) from shareholders. | | |
| | (22) Approved the resolution of the evaluation of the independence of the CPAs and affiliated accounting firms. | V | |
| | Opinions of Independent Directors: None. | | |
| | The Company's actions in response to the opinions of the Independent Directors: None. | | |
| | Resolution results: All the directors present voted in favor of the resolution without any objection. | | |
| The 7th Board The 18th | (1) Approved the Company's allowance of employee stock option to be subscribed for ordinary shares of NT$ 62.30 - 319 per share until June 30, 2019. If the employee exercises the stock option, the | | |

| Date | Content of Proposals and Follow-up Actions | Issues specified in Article 14-3 of the Securities and Exchange Act | Objections or Qualified Opinion of the Independent Directors |
|---|---|---|---|
| Meeting May 13, 2019 | Chairman of the Board is authorized to set the actual number of shares issued within the range of 1,000 shares to 621,151 shares. The record date for the issuing of new shares is set at June 30, 2019. The Chairman of the Board is authorized to amend the date if any change arises. | | |
| | (2) Approved the establishment of the Company's "Standard Operating Procedures for Directors' Request". | | |
| | Opinions of the Independent Directors: None. | | |
| | The Company's actions in response to the opinions of the Independent Directors: None. | | |
| | Resolution results: All the directors present voted in favor of the resolution without any objection. | | |
| The 8th Board The 1st meeting June 13, 2019 | (1) Mr. Hsing-Hai Chen was elected as the Company's Chairman of the Board. | | |
| | (2) The Chairman of the Board reported on the Company's 2018 cash dividend payment date and ex-dividend date. | | |
| | Opinions of Independent Directors: None. | | |
| | The Company's actions in response to the Opinions of the Independent Directors: None. | | |
| | Resolution results: All the Directors present voted in favor of the resolution without any objection. | | |
| The 8th Board The 2nd meeting June 27, 2019 | (1) Approved the resolution that the Company will be subject to the stock price adjustment of the employee's stock option of the original Eon Silicon Solution Inc. due to the merger. | | |
| | (2) Approved the resolution of the appointment of the members of the 2nd-term "Remuneration Committee". | | |
| | (3) Approved the resolution to adjust the investment structure of ESMT Group. | | |
| | Opinions of the Independent Directors: None. | | |
| | The Company's actions in response to the opinions of the Independent Directors: None. | | |
| | Resolution results: All the directors present voted in favor of the resolution without any objection. | | |
| The 8th Board The 3rd meeting August 12, 2019 | (1) Approved the Company's allowance of employee stock option to be subscribed for ordinary shares of NT$ 59.20 - 303.40 per share until Sep 30, 2019. If the employee exercises the stock option, the Chairman of the Board is authorized to set the actual number of shares issued within the range of 1,000 shares to 621,151 shares. The record date for the issuing of new shares is set at September 30, 2019. The Chairman of the Board is authorized to amend the date if any change arises. | | |
| | (2) Approved the resolution of the managers' remuneration ajustment for FY2019 of the Company. | | |
| | (3) Approved the resolution of the Company's remuneration to Directors and Supervisors for FY2018. | | |
| | (4) Approved the resolution of managers' and employees' compensation and bonus for FY2018 of the Company. | | |
| | Opinions of the Independent Directors: None. | | |
| | The Company's actions in response to the opinions of the Independent Directors: None. | | |
| | Resolution: The first resolution was approved by all Directors present at the meeting.<br>The second to fourth resolutions was appoved by all Directors present at the meeting except the recusal of Directors Hsing-Hai Chen, Ming-Chien Chang, Chih-Hong Ho, Yeong-Wen Daih from the voting due to conflict of interests. | | |
| The 8th Board The 4th meeting. November 12, 2019 | (1) Approved the Company's allowance of employee stock option to be subscribed for ordinary shares of NT$ 59.20 - 303.40 per share until December 31, 2019. If the employee exercises the stock option, the Chairman of the Board is authorized to set the actual number of shares issued within the range of 1,000 shares to 543,506 shares. The record date for the issuing of new shares is set at December 31, 2019. The Chairman of the Board is authorized to amend the date if any change arises. | | |
| | (2) Approved the resolution of the Company’s 2020 Audit Plan. | | |
| | (3) Approved the resolution to apply for the credit line with various | | |

| Date | Content of Proposals and Follow-up Actions | | Issues specified in Article 14-3 of the Securities and Exchange Act | Objections or Qualified Opinion of the Independent Directors |
|---|---|---|---|---|
| | | financial institutions in response to the Company's capital requirement. | | |
| | Opinions of the Independent Directors: None. | | | |
| | The Company's actions in response to the opinions of the Independent Directors: None. | | | |
| | Resolution results: All the directors present voted in favor of the resolution without any objection. | | | |
| The 8th Board The 5th meeting. March 20, 2020 | (1) | Approved the resolution of the distributions of employee bonus and Directors bonus for FY2019. | | |
| | (2) | Approved the resolution of the Company's Final Statement for FY2019. | | |
| | (3) | Approved the resolution of the Company's earnings distribution for FY2019. | | |
| | (4) | Approved the Company's Statement of Self-assessment of Internal Control System for FY2019. | | |
| | (5) | Approved the Company's allowance of employee stock option to be subscribed for ordinary shares of NT$ 59.20 - 303.40 per share until March 31, 2019. If the employee exercises the stock option, the Chairman of the Board is authorized to set the actual number of shares issued within the range of 1,000 shares to 543,506 shares. The record date for the issuing of new shares is set at March 31, 2019. The Chairman of the Board is authorized to amend the date if any change arises. | | |
| | (6) | Approved the resolution of the business plan and budget plan for FY2020. | | |
| | (7) | Approved the resolution to amend the Company's "Audit Committee Charter". | V | |
| | (8) | Approved the resolution to amend the Company's "Procedures of the Meetings of the Board of Directors". | V | |
| | (9) | Approved the resolution to amend the Company's "Remuneration Committee Organization Charter". | V | |
| | (10) | Approved the resolution to amend the Company’s "Articles of Association". | V | |
| | (11) | Approved the resolution to amend the Company's "Self-Evaluation of the Board of Directors". | V | |
| | (12) | Approved the resolution to convene the Company's 2020 Annual Shareholders' Meeting. | | |
| | (13) | Approved the resolution for the period and venue for accepting proposals from the shareholders | | |
| | (14) | Approved the resolution of the evaluation of the independence of the CPAs and CPAs' accounting firm. | V | |
| | Opinions of the Independent Directors: None. | | | |
| | The Company's actions in response to the opinions of the Independent Directors: None. | | | |
| | Resolution results: All the directors present voted in favor of the resolution without any objection. | | | |
| The 8th Board The 6th meeting May 14, 2020 | (1) | Approved that Company's employee stock option can be exercised to subscribe for ordinary shares at NT$59.2 - 303.4 per share until June 30, 2020. If the employee exercises the stock option, the Chairman is authorized to set the actual number of shares issued range from 1,000 to 543,506 shares. The base date for the issuance of new shares is June 30, 2020. In the event of a change, the Chairman is authorized to change the date. | | |
| | (2) | Approved the amendments to the Company's "Procedures for the Acquisition and Disposal of Assets". | V | |
| | (3) | Approved the amendments to the Company's "Rules of Procedure for Board of Directors Meetings." | V | |
| | (4) | Approved the amendments to the Company's "Audit Committee's Articles of Association". | V | |
| | (5) | Approved the application for the credit line with various financial institutions in response to the Company's capital needs. | | |

| Date | Content of Proposals and Follow-up Actions | Issues specified in Article 14-3 of the Securities and Exchange Act | Objections or Qualified Opinion of the Independent Directors |
|---|---|---|---|
| | Opinions of independent directors: None. | | |
| | The Company's actions in response to the opinions of independent directors: None. | | |
| | Resolution: All the directors present voted in favor of the resolution without any dissenting opinion. | | |

Shareholders' Meeting:

| Date | Review of Key Resolutions and Implementation |
|---|---|
| June 13,2019 | Adoption Item 1: Adoption of the Business Report and Financial Statements for FY2018.<br>Resolution: The proposal is voted and resolved as it is.the proposal was approved by voting.<br>Voting Results: |

| Number of Votes by Attending Shareholders | Approved Votes | Disapproved votes | Abstained Votes/No Votes |
|---|---|---|---|
| 185,485,204 rights | 180,261,206 rights | 6,180 rights | 5,217,818 rights |
| 100% | 97.18% | 0.00% | 2.81% |

Adoption Item 2: Adoption of the Earnings Distribution for FY2018.
Resolution: The proposal is voted and resolved as it is.the proposal was approved by voting.
Voting Results:

| Number of Votes by Attending Shareholders | Approved Votes | Disapproved votes | Abstained Votes/No Votes |
|---|---|---|---|
| 185,485,204 rights | 180,533,206 rights | 6,179 rights | 4,945,819 rights |
| 100% | 97.33% | 0.00% | 2.66% |

Implementation review: The cash ex-dividend date of this Earnings Distribution was July 3, 2019, and the dividend was distributed by remittance and postal cheque on July 31, 2019

Discussion Item 1: Proposed resolution to amend the Company's "Articles of Association".
Resolution: The proposal is voted and resolved as it is.the proposal was approved by voting.
Voting Results:

| Number of Votes by Attending Shareholders | Approved Votes | Disapproved votes | Abstained Votes/No Votes |
|---|---|---|---|
| 185,485,204 rights | 180,528,195 rights | 11,191 rights | 4,945,818 rights |
| 100% | 97.32% | 0.00% | 2.66% |

Implementation review: The Company's operating management system documents have been amended, and the relevant "Articles of Association" shall be handled in accordance with this newly revised provision.

Discussion Item 2: Proposed resolution to amend the Company's "Directors and Supervisors Election Guidelines".
Resolution: tThe proposal is voted and resolved as it is.he proposal was approved by voting.
Voting Results:

| Number of Votes by Attending Shareholders | Approved Votes | Disapproved votes | Abstained Votes/No Votes |
|---|---|---|---|
| 185,485,204 rights | 180,528,197 rights | 11,189 rights | 4,945,818 rights |
| 100% | 97.32% | 0.00% | 2.66% |

Implementation review: The Company's operating management system documents have been changed, and the relevant "Directors and Supervisors Election Guidelines" shall be handled in accordance with this newly revised provision.

Discussion Item 3: Proposed resolution to amend the Company's "Procedures for the Acquisition and Disposal of Assets".
Resolution: The proposal is voted and resolved as it is.the proposal was approved by voting.
Voting Results:

| Number of Votes by Attending Shareholders | Approved Votes | Disapproved votes | Abstained Votes/No Votes |
|---|---|---|---|
| 185,485,204 rights | 180,528,196 rights | 11,189 rights | 4,945,818 rights |
| 100% | 97.32% | 0.00% | 2.66% |

Implementation review: The Company's operating management system documents have been changed, and the relevant "Procedures for the Acquisition and Disposal of Assets" shall be handled in accordance with this newly revised provision.

Discussion Item 4: Proposed resolution to amend the Company’s "Procedures of Provision of Endorsements/Guarantees".
Resolution: The proposal is voted and resolved as it is.the proposal was approved by voting.
Voting Results:

| Number of Votes by Attending Shareholders | Approved Votes | Disapproved votes | Abstained Votes/No Votes |
|---|---|---|---|
| 185,485,204 rights | 180,521,863 rights | 11,188 rights | 4,952,153 rights |
| 100% | 97.32% | 0.00% | 2.66% |

Implementation review: The Company's operating management system documents have been changed, and the relevant "Procedures of Provision of Endorsements/Guarantees" shall be handled in accordance with this newly revised provision.

Discussion Item 5: Proposed resolution to amend the Company's "Provision of Financial Loans to Other Parties".
Resolution: The proposal is voted and resolved as it is.the proposal was approved by voting.
Voting Results:

| Number of Votes by Attending Shareholders | Approved Votes | Disapproved votes | Abstained Votes/No Votes |
|---|---|---|---|
| 185,485,204 rights | 180,528,196 rights | 11,193 rights | 4,945,815 rights |
| 100% | 97.32% | 0.00% | 2.66% |

Implementation review: The Company's operating management system documents have been changed, and the relevant "Provision of Financial Loans to Other Parties" shall be handled in accordance with this newly revised provision.

Election matters: Re-election of Directors.
Resolution: the proposal was approved by voting.
Voting Results: The elected list is as follows:

| | Household Number or iID Card Number | Name | Number of Elected Votes |
|---|---|---|---|
| Director | 75 | Hsing-Hai Chen | 338,085,940 rights |
| Director | 27 | Ming-Chien Chang | 309,035,338 rights |
| Director | 12931 | Chih-Hong Ho | 226,025,958 rights |
| Director | 68 | Yeong-Wen Daih | 184,622,244 rights |
| Director | 226024 | Representative of Shin Xin Investment Co., Ltd. Chia-Neng Huang | 182,793,882 rights |
| Director | 191994 | Wei-Min Sheng | 87,351,488 rights |
| Independent Director | A1039XXXXX | Shan-Jen Chow | 116,207,023 rights |
| Independent Director | F1035XXXXX | Tsin-Fu Jiang | 87,580,615 rights |
| Independent Director | H1011XXXXX | Cheng-Yan Chien | 87,087,480 rights |

Other matters: Discussion on the removal of the non-competition clauses for newly-appointed Directors.
Resolution: The proposal is voted and resolved as it is.the proposal was approved by voting.
Voting Results:

| Number of Votes by Attending Shareholders | Approved Votes | Disapproved votes | Abstained Votes/No Votes |
|---|---|---|---|
| 185,485,204 rights | 179,956,419 rights | 40,328 rights | 5,488,457 rights |
| 100% | 97.01% | 0.00% | 2.95% |

Implementation review: Without affecting the Company's business growth and without damaging the Company's interests, it is agreed to remove the non-competition clauses for the newly-appointed Directors.

(XII) Major Issues of Record or Written Statements Made by Any Director Objecting to Important Resolutions Passed by the Board of Directors in the most recent recent financial year and up to the date of publication of the Annual Report: None.

(XIII) Resignation or Dismissal of the Chairman of the Board, President, and Heads of Accounting, Finance, Internal Audit and R&D in the most recent recent financial year and up to the date of publication of the Annual Report: None.

## IV. Information of Audit Fee

(I) Range of Audit Fee Range:

| CPAs' Accounting Firm | Name of CPAs | | Audit Period | Remarks |
|---|---|---|---|---|
| PricewaterhouseCoopers Taiwan | Ya-Huei Cheng | Danie Lee | 2019.1.1~2019.12.31 | |

| Range of Fees \ Fees Category | | Audit Fee | Non-audit fee | Total |
|---|---|---|---|---|
| 1 | Under NT$ 2,000 thousand | | V | |
| 2 | NT$ 2,000 thousand (inclusive) - NT$ 4,000 thousand | | | |
| 3 | NT$ 4,000 thousand (inclusive) - NT$ 6,000 thousand | | | |
| 4 | NT$ 6,000 thousand (inclusive) - NT$ 8,000 thousand | V | | V |
| 5 | NT$ 8,000, thousand (inclusive) ~ NT$ 10,000 thousand | | | |
| 6 | Over NT$ 10,000 thousand (inclusive) | | | |

(II) If the Company is in any one of the following conditions, the following information shall be disclosed:

(1) If the non-audit fees paid to CPAs, the CPA's accounting firm and its affiliates amounted to over one-fourth of the audit fees paid to the CPAs, the amount of audit and non-audit fees and the content of the non-audit services shall be disclosed:

| CPA Accounting Firm | Name of CPAs | | Audit Fee | Non-audit Fee | | | | | Audit Period | Remarks |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | System Design | Business Registration | Human Resource | Others | Sub-total | | |
| Pricewaterhouse Coopers Taiwan | Cheng Ya-Hui | Li Tien I | 6,100 | - | - | - | 650 | 650 | 2019.1.1~ 2019.12.31 | The non-audit fees are mainly the income tax exemption application service fee of NT$ 600 and dual-status business entities verification fee of NT$50, etc. |

(2) Where the CPA firm was replaced, and the audit fees in the financial year when the replacement was made were less than that in the previous financial year before the replacement, the amount of the audit fees paid before the replacement and reasons for paying said amount shall be disclosed: Not applicable.

(3) Where accounting fee paid has decreased for more than 15% than that of the previous year, the amount, proportion, and reason of the reduction shall be disclosed: None.

V. Changes of CPAs: None.

VI. Any of the Company's Chairman of the Board, President, or managers in charge of finance or accounting held a position in CPA's accounting firm or its affiliates in the most recent year: None.

VII. Conditions of shares transfer and changes in equity pledge from the Chairman of the Board, managers, and shareholders who hold more than ten percent (10%) of the total shareholder, from the most recent financial year up to the date of publication of the Annual Report:

(I) Shares changes by Directors, Supervisors, anagers, and major shareholders

| Title | Name | FY2019 | | As at April 17, 2020 | |
|---|---|---|---|---|---|
| | | Shareholding (Number of Shares) Amount Increased (Decreased) | Shares Pledged Amount Increased (Decreased) | Shareholding (Number of Shares) Amount Increased (Decreased) | Shares Pledged Amount Increased (Decreased) |
| Chairman of the Board Chief Executive Officer | Hsing-Hai Chen | - | - | - | - |
| Director President | Ming-Chien Chang | - | - | - | - |
| Director Senior Vice President | Chih-Hong Ho | - | - | - | - |
| Director Vice President | Yeong-Wen Daih | - | - | 10,000 | - |
| Director | Shin Xin Investment Co., Ltd. | 248,000 | - | - | - |
| Corporate Representative of Directors | Chia-Neng Huang | - | - | - | - |
| Independent Director | Shan-Jen Chow | - | - | - | - |
| Independent Director | Tsin-Fu Jiang | - | - | - | - |
| Independent Director | Cheng-Yan Chien | - | - | - | - |
| Senior Director of Finance Department | Candy Chu | - | - | - | - |

(II) Equity transfer information: None.

(III) Shares pledged: None.

## VIII. Information of the Relationship among the Top Ten Shareholders

| Name | Current Shareholding | | Spouse & Minor Children Children's Shareholding | | Shareholding by Nominees | | The name and relationship with any one who is a related party or a relative within the second degree of kinship among the ten largest shareholders, | | Remarks |
|---|---|---|---|---|---|---|---|---|---|
| | Number of Shares | Shareholding Percentage | Number of Shares | Shareholding Percentage | Number of Shares | Shareholding Percentage | Name (or Name) | Relationship | |
| Jie Yong Investment Ltd. | 14,154,000 | 4.95% | - | - | - | - | Hsing-Hai Chen | Chairman of the Board of this company | |
| | | | | | | | Ming-Chien Chang | Director of this company | |
| Representative of Jie Yong Investment Ltd.: Hsing-Hai Chen | 8,411,629 | 2.94% | 1,370,927 | 0.47% | - | - | Jie Yong Investment Ltd. | Chairman of the Board of this company | |
| Hsing-Hai Chen | 8,411,629 | 2.94% | 1,370,927 | 0.47% | - | - | Jie Yong Investment Ltd. | Chairman of the Board of this company | |
| Chang Wah Electromaterials Inc. | 6,437,000 | 2.25% | - | - | - | - | - | - | |
| Representative of Chang Wah Electromaterials Inc.: Chia-Neng Huang | - | - | - | - | - | - | - | - | |
| Citibank Tawian in Custody for Norges Bank Investment Management | 5,541,819 | 1.94% | - | - | - | - | - | - | |
| Ming-Chien Chang | 5,523,825 | 1.93% | 1,618,785 | 0.56% | - | - | Jie Yong Investment Ltd. | Director of this company | |
| British Virgin Islands merchant KAHOW LTD. | 5,222,985 | 1.83% | - | - | - | - | Shun Cheng Investment Co., Ltd. | Subsidiary | |
| Representative of British Virgin Islands merchant KAHOW LTD.: ML Chiou | 949 | - | - | - | - | - | Shun Cheng Investment Co., Ltd. | Director | |
| Shun Cheng Investment Co., Ltd. | 4,807,941 | 1.68% | - | - | - | - | British Virgin Islands merchant KAHOW LTD. | Parent company | |
| Representative of Shun Cheng Investment Co., Ltd.: Ming-Hui Chen | - | - | - | - | - | - | - | - | |

| Name | Current Shareholding | | Spouse & Minor Children Children's Shareholding | | Shareholding by Nominees | | The name and relationship with any one who is a related party or a relative within the second degree of kinship among the ten largest shareholders, | | Remarks |
|---|---|---|---|---|---|---|---|---|---|
| JPMorgan Chase in Custody for Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds | 3,900,717 | 1.37% | - | - | - | - | - | - | |
| Standard Chartered iShares Emerging Markets ETF | 3,252,000 | 1.14% | - | - | - | - | - | - | |
| Allianz Taiwan Technology Fund | 3,250,000 | 1.14% | - | - | - | - | - | - | |

IX. Shares held by the Company, its Directors, Supervisors, managers, and businesses directly or indirectly controlled by the Company as a spin-off, and the percentage of consolidated shares held:

Unit: Shares; %

| Spinoff Company | Investment by the Company | | Investment by Directors/Supervisors/managers and by companies directly or indirectly controlled by the Company | | Total Investment | |
|---|---|---|---|---|---|---|
| | Number of Shares | Shareholding Percentage | Number of Shares | Shareholding Percentage | Number of Shares | Shareholding Percentage |
| Elite Memory Technology Inc. | 100,000 | 100.00% | – | – | 100,000 | 100.00% |
| Charng Feng Investment Ltd. | 50,000,000 | 100.00% | – | – | 50,000,000 | 100.00% |
| 3R Semiconductor Technogy INC. | – | – | 10,000,000 | 100.00% | 10,000,000 | 100.00% |
| Elite Silicon Technology Inc. | – | – | 7,329,160 | 96.44% | 7,329,160 | 96.44% |
| Jie Yong Investment Ltd. | 3,600,000 | 41.86% | 2,900,000 | 33.72% | 6,500,000 | 75.58% |
| Elite Investment Services Ltd. | 15 | 100.00% | – | – | 15 | 100.00% |
| Elite Semiconductor (B.V.I) Ltd. | 1,000 | 100.00% | – | – | 1,000 | 100.00% |
| Elite Innovation Japan Ltd. | – | – | 200 | 100.00% | 200 | 100.00% |
| Eon Silicon Solution Inc.USA | 200,000 | 100.00% | – | – | 200,000 | 100.00% |
| Elite Semiconductor Memory Technology (Shenzhen) Inc. | – | – | – | 100.00% | – | 100.00% |
| Elite Semiconductor Microelectronics (Shanghai) Technology Inc. | – | – | – | – | – | – |

Note: This document is dated March 31, 2020.

# Capital Overview

I. Capital and Shares

(I) Sources of Capital

| Year and Month | Price at Issuance | Authorized Capital | | Paid-in Capital | | Remarks | | |
|---|---|---|---|---|---|---|---|---|
| | | Number of Shares (Thousand Shares) | Value (NT$ 1,000) | Number of Shares (Thousand Shares) | Value (NT$ 1,000) | Sources of Capital | Increase of Capital by Assets Other Than Cash | Others |
| 1998.5 | 10 | 30,000 | 300,000 | 10,540 | 105,400 | Capital Shares at Founding | Technical Value NT$ 10,540 thousand | Note 1 |
| 1999.4 | 10 | 30,000 | 300,000 | 28,571 | 285,715 | Increase of Capital in Cash NT$ 162,284 thousand | Technical value NT$ 18,031 thousand | Note 2 |
| 1999.7 | 10 | 30,000 | 300,000 | 30,000 | 300,000 | Recapitalization of Retained Earnings NT$ 14,285 thousand | Nil | Note 3 |
| 2000.9 | 10 | 100,000 | 1,000,000 | 55,453 | 554,530 | Recapitalization of Retained Earnings NT$ 254,530 thousand | Nil | Note 4 |
| 2001.9 | 10 | 100,000 | 1,000,000 | 100,000 | 1,000,000 | Recapitalization of Retained Earnings NT$ 445,470 thousand | Nil | Note 5 |
| 2002.9 | 10 | 150,000 | 1,500,000 | 137,500 | 1,375,000 | Recapitalization of Retained Earnings NT$ 375,000 thousand | Nil | Note 6 |
| 2003.9 | 10 | 180,000 | 1,800,000 | 158,125 | 1,581,250 | Recapitalization of Retained Earnings NT$ 206,250 thousand | Nil | Note 7 |
| 2004.9 | 10 | 210,000 | 2,100,000 | 177,891 | 1,778,906 | Recapitalization of Retained Earnings NT$ 197,656 thousand | Nil | Note 8 |
| 2005.9 | 10 | 260,000 | 2,600,000 | 204,574 | 2,045,742 | Recapitalization of Retained Earnings NT$ 266,836 thousand | Nil | Note 9 |
| 2006.2 | 10 | 260,000 | 2,600,000 | 207,833 | 2,078,325 | Increase of Capital by Merger NT$32,583 thousand | Nil | Note 10 |
| 2006.9 | 10 | 260,000 | 2,600,000 | 216,665 | 2,166,654 | Recapitalization of Retained Earnings NT$ 88,329 thousand | Nil | Note 11 |
| 2007.9 | 10 | 260,000 | 2,600,000 | 227,365 | 2,273,654 | Recapitalization of Retained Earnings NT$ 107,000 thousand | Nil | Note 12 |
| 2008.9 | 10 | 260,000 | 2,600,000 | 239,007 | 2,390,071 | Recapitalization of Retained Earnings NT$ 116,417 thousand | Nil | Note 13 |
| 2008.11 | 17.65 | 260,000 | 2,600,000 | 241,532 | 2,415,321 | Exercising of Employee Stock Options of NT$ 25,250 thousand | Nil | Note 14 |
| 2009.4 | 17.65 | 260,000 | 2,600,000 | 241,995 | 2,419,951 | Exercising of Employee Stock Options of NT$ 4,630 thousand | Nil | Note 15 |

| Year and Month | Price at Issuance | Authorized Capital | | Paid-in Capital | | Remarks | | |
|---|---|---|---|---|---|---|---|---|
| | | Number of Shares (Thousand Shares) | Value (NT$ 1,000) | Number of Shares (Thousand Shares) | Value (NT$ 1,000) | Sources of Capital | Increase of Capital by Assets Other Than Cash | Others |
| 2009.5 | 17.65 | 260,000 | 2,600,000 | 242,251 | 2,422,519 | Exercising of employee stock options NT$ 2,568 thousand | Nil | Note 16 |
| 2009.9 | 17.65 | 260,000 | 2,600,000 | 242,340 | 2,423,404 | Exercising of Employee Stock Options of NT$ 885 thousand | Nil | Note 17 |
| 2010.1 | 16.65 | 260,000 | 2,600,000 | 244,310 | 2,443,101 | Exercising of Employee Stock Options of NT$ 19,697 thousand | Nil | Note 18 |
| 2010.4 | 16.65 | 260,000 | 2,600,000 | 244,683 | 2,446,834 | Exercising of Employee Stock Options of NT$ 3,733 thousand | Nil | Note 19 |
| 2010.5 | 16.65 | 300,000 | 3,000,000 | 245,422 | 2,454,221 | Exercising of Employee Stock Options of NT$ 7,387 thousand | Nil | Note 20 |
| 2010.7 | 16.65 | 300,000 | 3,000,000 | 245,874 | 2,458,749 | Exercising of Employee Stock Options of NT$ 4,528 thousand | Nil | Note 21 |
| 2011.1 | 15.65 | 300,000 | 3,000,000 | 246,035 | 2,460,351 | Exercising of Employee Stock Options of NT$ 1,602 thousand | Nil | Note 22 |
| 2011.4 | 15.65 | 300,000 | 3,000,000 | 246,224 | 2,462,246 | Exercising of Employee Stock Options of NT$ 1,895 thousand | Nil | Note 23 |
| 2011.7 | 15.65 | 300,000 | 3,000,000 | 246,291 | 2,462,911 | Exercising of Employee Stock Options of NT$ 665 thousand | Nil | Note 24 |
| 2011.11 | 14.7<br>10 | 350,000 | 3,500,000 | 259,777 | 2,597,774 | Exercising of Employee Stock Options of NT$ 1,638 thousand and stock swap of NT$ 133,225 thousand | Nil | Note 25 |
| 2012.4 | 14.7 | 350,000 | 3,500,000 | 260,522 | 2,605,229 | Exercising of Employee Stock Options of NT$7,455 thousand | Nil | Note 26 |
| 2012.7 | 14.7 | 350,000 | 3,500,000 | 260,741 | 2,607,414 | Exercising of Employee Stock Options of NT$ 2,185 thousand | Nil | Note 27 |
| 2012.7 | - | 350,000 | 3,500,000 | 266,741 | 2,667,414 | Issuance of New Restricted Employee Shares Amounted NT$ 60,000 thousand | Nil | Note 28 |
| 2013.1 | 14.2 | 350,000 | 3,500,000 | 267,175 | 2,671,749 | Exercising of Employee Stock Options of NT$ 5,285 thousand<br><br>Cancellation of restricted employee shares of NT$ 950 thousand | Nil | Note 29 |
| 2013.6 | - | 350,000 | 3,500,000 | 266,980 | 2,669,799 | Cancellation of Restricted Employee Shares NT$ 1,950 thousand | Nil | Note 30 |
| 2013.11 | - | 350,000 | 3,500,000 | 266,873 | 2,668,729 | Cancellation of Restricted Employee Shares NT$ 1,070 thousand | Nil | Note 31 |

| Year and Month | Price at Issuance | Authorized Capital | | Paid-in Capital | | Remarks | | |
|---|---|---|---|---|---|---|---|---|
| | | Number of Shares (Thousand Shares) | Value (NT$ 1,000) | Number of Shares (Thousand Shares) | Value (NT$ 1,000) | Sources of Capital | Increase of Capital by Assets Other Than Cash | Others |
| 2014.5 | - | 350,000 | 3,500,000 | 266,782 | 2,667,819 | Cancellation of Restricted Employee Shares NT$ 910 thousand | Nil | Note 32 |
| 2014.11 | 24.3 | 350,000 | 3,500,000 | 271,454 | 2,714,544 | Cancellation of Restricted Employee Shares NT$ 600 thousand<br><br>Exercising of Employee Stock Options of NT$ 47,325 thousand | Nil | Note 33 |
| 2015.4 | 24.3 | 350,000 | 3,500,000 | 272,424 | 2,724,241 | Cancellation of Restricted Employee Shares NT$ 140 thousand<br><br>Exercising of Employee Stock Options of NT$ 9,837 thousand | Nil | Note 34 |
| 2015.10 | 22.8 | 350,000 | 3,500,000 | 272,514 | 2,725,144 | Exercising of Employee Stock Options of NT$ 903 thousand | Nil | Note 35 |
| 2016.1 | 22.8 | 350,000 | 3,500,000 | 272,834 | 2,728,344 | Exercising of Employee Stock Options of NT$ 3,200 thousand | Nil | Note 36 |
| 2016.4 | 22.8 | 350,000 | 3,500,000 | 273,103 | 2,731,026 | Exercising of Employee Stock Options of NT$ 2,682 thousand | Nil | Note 37 |
| 2016.8 | 22.8 | 350,000 | 3,500,000 | 281,518 | 2,815,177 | Exercising of Employee Stock Options of NT$ 1,415 thousand<br>Stock Issued Pursuant to Acquisitions NT$ 82,736 thousand | Nil | Note 38 |
| 2016.10 | 21.8 | 350,000 | 3,500,000 | 281,924 | 2,819,239 | Exercising of Employee Stock Options of NT$ 4,062 thousand | Nil | Note 39 |
| 2017.1 | 21.8 | 350,000 | 3,500,000 | 282,574 | 2,825,737 | Exercising of Employee Stock Options of NT$ 6,498 thousand | Nil | Note 40 |
| 2017.4 | 21.8 | 350,000 | 3,500,000 | 283,281 | 2,832,814 | Exercising of Employee Stock Options of NT$ 7,077 thousand | Nil | Note 41 |
| 2017.7 | 20.9 | 350,000 | 3,500,000 | 284,025 | 2,840,252 | Exercising of Employee Stock Options of NT$ 7,438 thousand | Nil | Note 42 |
| 2017.10 | 20.9 | 350,000 | 3,500,000 | 284,699 | 2,846,992 | Exercising of Employee Stock Options of NT$ 6,740 thousand | Nil | Note 43 |
| 2018.1 | 20.9 | 350,000 | 3,500,000 | 285,759 | 2,857,589 | Exercising of Employee Stock Options of NT$ 10,597 thousand | Nil | Note 44 |

| | | Approval Date and Number by FSC Securities and Futures Bureau | Approval Date and Number by Science Park Bureau |
|---|---|---|---|
| Note 1 | Established in May 1998 | — | (1998) Park Commercial No. 013135 on June 2, 1998 |
| Note 2 | Increase of Capital in April 1999 | — | (1999) Park Commercial No. 007633 on April 19, 1999 |
| Note 3 | Increase of Capital in July 1999 | — | (1999) Park Commercial No. 014586 on July 6, 1999 |
| Note 4 | Increase of Capital in September 2000 | Taiwan Financial Securities (1) No. 31221 on April 21, 2000 | Park Commercial No. 019842 on September 15, 2000 |
| Note 5 | Increase of Capital in September 2001 | (2001) Taiwan Financial Securities (1) No. 144603 on July 10, 2001 | (2001 Park Commercial No. 023715 on September 20, 2001 |
| Note 6 | Increase of Capital in September 2002 | Taiwan Financial Securities (1) No. 0910139350 on July 16, 2002 | Park Commercial No. 0910022134 on September 18, 2002 |
| Note 7 | Increase of Capital in September 2003 | Taiwan Financial Securities (1) No. 0920129883 on July 4, 2003 | Park Commercial No. 0920025611 on September 10, 2003 |
| Note 8 | Increase of Capital in September 2004 | Financial Supervisory Securities (1) No. 0930132757 on July 22, 2004 | Park Commercial No. 0930025291 on September 20, 2004 |
| Note 9 | Increase of Capital in September 2005 | Financial Supervisory Securities (1) No. 0940129095 on July 20, 2005 | Park Commercial No. 0940024896 on September 19, 2005 |
| Note 10 | Increase of Capital in Februrary 2006 | Financial Supervisory Securities (1) No. 0940147723 on November 1, 2005 | Park Commercial No. 0950002485 on February 3, 2006 |
| Note 11 | Increase of Capital in September 2006 | Financial Supervisory Securities (1) No. 0950131360 on July 19, 2006 | Park Commercial No. 0950024568 on September 21, 2006 |
| Note 12 | Increase of Capital in September 2007 | Financial Supervisory Securities (1) No. 0960036695 on July 16, 2007 | Park Commercial No. 0960024944 on September 19, 2007 |
| Note 13 | Increase of Capital in September 2008 | Financial Supervisory Securities (1) No. 0970035546 on July 15, 2008 | Park Commercial No. 0970026074 on September 22, 2008 |
| Note 14 | Increase of Capital in November 2008 | Financial Supervisory Securities (1) No. 0950128713 on July 6, 2006 | Park Commercial No. 0970032595 on November 21, 2008 |
| Note 15 | Increase of Capital in April 2009 | Financial Supervisory Securities (1) No. 0950128713 on July 6, 2006 | Park Commercial No. 0980009444 on April 14, 2009 |
| Note 16 | Increase of Capital in May 2009 | Financial Supervisory Securities (1) No. 0950128713 on July 6, 2006 | Park Commercial No. 0980012992 on May 13, 2009 |
| Note 17 | Increase of Capital in September 2009 | Financial Supervisory Securities (1) No. 0950128713 on July 6, 2006 | Park Commercial No. 0980025248 on September 10, 2009 |
| Note 18 | Increase of Capital in September 2010 | Financial Supervisory Securities (1) No. 0950128713 on July 6, 2006 | Park Commercial No. 0990002583 on January 28, 2010 |
| Note 19 | Increase of Capital in April 2010 | Financial Supervisory Securities (1) No. 0950128713 on July 6, 2006 | Park Commercial No. 0990009166 on Apil 13, 2010 |

| | | Approval Date and Number by FSC Securities and Futures Bureau | Approval Date and Number by Science Park Bureau |
|---|---|---|---|
| Note 20 | Increase of Capital in May 2010 | Financial Supervisory Securities (1) No. 0950128713 on July 6, 2006 | Park Commercial No. 0990013413 on May 13, 2010 |
| Note 21 | Increase of Capital in July 2010 | Financial Supervisory Securities (1) No. 0950128713 on July 6, 2006 | Park Commercial No. 0990018991 on July 7, 2010 |
| Note 22 | Increase of Capital in January 2011 | Financial Supervisory Securities (1) No. 0950128713 on July 6, 2006 | Park Commercial No. 1000001111 on January 13, 2011 |
| Note 23 | Increase of Capital in April 2011 | Financial Supervisory Securities (1) No. 0950128713 on July 6, 2006 | Park Commercial No. 1000009811 on April 15, 2011 |
| Note 24 | Increase of Capital in July 2011 | Financial Supervisory Securities (1) No. 0950128713 on July 6, 2006 | Park Commercial No.1000019060 on July 6, 2011 |
| Note 25 | Increase of Capital in November 2011 | Financial Supervisory Securities (1) No. 0950128713 on July 6, 2006<br>Financial Supervisory Securities Issued No. 1000047861 on October 13, 2011 | Park Commercial No. 1000035125 on November 28, 2011 |
| Note 26 | Increase of Capital in April 2012 | Financial Supervisory Securities (1) No. 0950128713 on July 6, 2006 | Park Commercial No. 1010009398 on April 3, 2012 |
| Note 27 | Increase of Capital in June 2012 | Financial Supervisory Securities (1) No. 0950128713 on July 6, 2006 | Park Commercial No.1010020247 on July 9, 2012 |
| Note 28 | Increase of Capital in October 2012 | Financial Supervisory Securities Issued No. 1010030033 on July 9, 2012 | Park Commercial No. 1010031715 on October 15, 2012 |
| Note 29 | Increase of Capital in January 2013 | Financial Supervisory Securities (1) No. 0950128713 on July 6, 2006 | Park Commercial No. 1020000199 on January 7, 2013 |
| Note 30 | Decrease in Capital in June 2013 | Financial Supervisory Securities Issued No. 1010030033 on July 9, 2012 | Park Commercial No. 1020018681 on June 28, 2013 |
| Note 31 | Decrease in Capital in November 2013 | Financial Supervisory Securities Issued No. 1010030033 on July 9, 2012 | Park Commercial No. 1020036135 on November 27, 2013 |
| Note 32 | Decrease in Capital in May 2014 | Financial Supervisory Securities Issued No. 1010030033 on July 9, 2012 | Hsinchu Commercial No. 1030015402 on May 29, 2014 |
| Note 33 | Increase of Capital in November 2014 | Financial Supervisory Securities Issued No. 1000064985 on January 10, 2012 | Hsinchu Commercial No. 1030034996 on November 28, 2014 |
| Note 34 | Increase and Decrease of Capital in April 2015 | Financial Supervisory Securities Issued No. 1010030033 on July 9, 2012<br>Financial Supervisory Securities Issued No. 1000064985 on January 10, 2012 | Hsinchu Commercial No. 1040010347 on April 17, 2015 |
| Note 35 | Increase of Capital in October 2015 | Financial Supervisory Securities Issued No. 1000064985 on January 10, 2012 | Hsinchu Commercial No. 1040029657 on October 15, 2015 |
| Note 36 | Increase of Capital in January 2016 | Financial Supervisory Securities Issued No. 1000064985 on January 10, 2012 | Hsinchu Commercial No. 1050001500 on January 19, 2016 |
| Note 37 | Increase of Capital in May 4, 2016 | Financial Supervisory Securities Issued No. 1000064985 on January 10, 2012 | Hsinchu Commercial No. 1050009686 on April 13, 2016 |

| | | Approval Date and Number by FSC Securities and Futures Bureau | Approval Date and Number by Science Park Bureau |
|---|---|---|---|
| Note 38 | Increase of Capital in August 2016 | Financial Supervisory Securities Issued No. 1000064985 on January 10, 2012<br>Financial Supervisory Securities Issued No. 1050014535 on May 4, 2016 | Hsinchu Commercial No. 1050021881 on August 5, 2016 |
| Note 39 | Increase of Capital in October 2016 | Financial Supervisory Securities Issued No. 1000064985 on January 10, 2012 | Hsinchu Commercial No. 1050028662 on October 18, 2016 |
| Note 40 | Increase of Capital in January 2017 | Financial Supervisory Securities Issued No. 1000064985 on January 10, 2012 | Hsinchu Commercial No. 060001396 on January 19, 2017 |
| Note 41 | Increase of Capital in April 2017 | Financial Supervisory Securities Issued No. 1000064985 on January 10, 2012 | Hsinchu Commercial No. 1060009648 on April 14, 2017 |
| Note 42 | Increase of Capital in July 2017 | Financial Supervisory Securities Issued No. 1000064985 on January 10, 2012 | Hsinchu Commercial No. 1060019320 on July 18, 2017 |
| Note 43 | Increase of Capital in October 2017 | Financial Supervisory Securities Issued No. 1000064985 on January 10, 2012 | Hsinchu Commercial No. 1060028218 on October 16, 2017 |
| Note 44 | Increase of Capital in January 2018 | Financial Supervisory Securities Issued No. 1000064985 on January 10, 2012 | Hsinchu Commercial No. 1070002487 on January 16, 2018 |

(II) Category of Shares

Shareholding record date: April 17, 2020; Unit: Shares

| Category of Shares | Authorized Capital | | | Remarks |
|---|---|---|---|---|
| | Outstanding | Unissued shares | Total | |
| Registered Common | 285,758,925 | 64,241,075 | 350,000,000 | Listed on March 4, 2002 |

Note: shares of a listed company

(III) Shareholder Structure

Record date: April 17, 2010

| Shareholder Structure / Quantity | Government Agencies | Financial Institutions | Other Institutional Shareholders | Domestic Natural Persons | Foreign Institutions and Foreign Natural Persons | Total |
|---|---|---|---|---|---|---|
| Number of | 1 | 3 | 130 | 43,886 | 177 | 44,197 |
| Number of Shares | 643,000 | 3,313,139 | 32,882,124 | 201,303,236 | 47,617,426 | 285,758,925 |
| Shareholding | 0.22% | 1.16% | 11.51% | 70.45% | 16.66% | 100.00% |

Note: Percentage of shareholding from China: None.

(IV) Distribution of Equities (nominal value of NT$ 10 per share)

1. Ordinary Shares:

Record Date: April 17, 2020

| Range of Shareholding | Number of Shareholders | Number of Shares Held | Number of Shares Held |
|---|---|---|---|
| 1 to 999 | 16,554 | 1,113,703 | 0.39 |
| 1,000 to 5,000 | 21,364 | 44,694,771 | 15.64 |
| 5,001 to 10,000 | 3,357 | 26,843,511 | 9.39 |
| 10,001 to 15,000 | 917 | 11,734,525 | 4.11 |
| 15,001 to 20,000 | 627 | 11,682,262 | 4.09 |
| 20,001 to 30,000 | 504 | 12,922,700 | 4.52 |
| 30,001 to 40,000 | 219 | 7,884,583 | 2.76 |
| 40,001 to 50,000 | 164 | 7,704,799 | 2.70 |
| 50,001 to 100,000 | 273 | 19,459,176 | 6.81 |
| 100,001 to 200,000 | 109 | 15,161,031 | 5.31 |
| 200,001 to 400,000 | 51 | 14,608,619 | 5.11 |
| 400,001 to 600,000 | 16 | 8,166,391 | 2.86 |
| 600,001 to 800,000 | 12 | 8,431,496 | 2.95 |
| 800,001 to 1,000,000 | 5 | 4,607,858 | 1.61 |
| 1,000,001 or more | 25 | 90,743,500 | 31.75 |
| Total | 44,197 | 285,758,925 | 100.00 |

2. Preferred Shares: None.

(V) List of Major Shareholders:

Record date: April 17, 2020

| Shareholding / Shareholder's Name | Number of Shares Held | Percentage (%) |
|---|---|---|
| Jie Yong Investment Ltd. | 14,154,000 | 4.95% |
| Hsing-Hai Chen | 8,411,629 | 2.94% |
| Chang Wah Electromaterials Inc. | 6,437,000 | 2.25% |
| Citibank in Custody of Norges Bank Investment | 5,541,819 | 1.94% |
| Ming-Chien Chang | 5,523,825 | 1.93% |
| British Virgin Islands merchant KAHOW LTD. | 5,222,985 | 1.83% |
| Shun Cheng Investment Co., Ltd. | 4,807,941 | 1.68% |
| JPMorgan Chase in Custody for Vanguard Total | 3,900,717 | 1.37% |
| Standard Chartered iShares Emerging Markets | 3,252,000 | 1.14% |
| Allianz Global Investors Taiwan Technology | 3,250,000 | 1.14% |

(VI) Per Share Market Price, Net Book Value, Earnings and Dividends and Related Information over the Past Two Financial Years

Unit: NT$

| Year / Item | | | 2018 | 2019 | As at March 31. 2020 |
|---|---|---|---|---|---|
| Market Price Per Share | Highest | | 50.50 | 40.40 | 39.70 |
| | Lowest | | 28.20 | 28.75 | 23.70 |
| | Average | | 37.89 | 32.44 | 34.76 |
| Net Book Value Per Share | Before Distribution | | 25.74 | 26.11 | 27.26 |
| | After Distribution | | 24.24 | (Note 1) | N/A |
| Earnings Per Share | Weighted Average Number of Shares (thousand shares) | | 280,133 | 280,133 | 280,133 |
| | Earnings Per Share | Before Adjustment | 2.52 | 1.78 | 1.11 |
| | | After Adjustment | 2.52 | (Note 1) | N/A |
| Dividends Per Share | Cash Dividends | | 1.50 | (Note 1) | N/A |
| | Free Allotment | Dividends from Retained Earnings | — | (Note 1) | N/A |
| | | Dividends from Capital Reserves | — — | (Note 1) | N/A |
| | Cumulative Unpaid Dividends | | — — | — | — |
| Investment Return Analysis | Price-Earnings Ratio (Note 2) | | 15.04 | 18.22 | 31.32 |
| | Price-Dividend ratio (Note 3) | | 25.26 | (Note 1) | N/A |
| | Cash Dividend Yield % (Note 4) | | 3.96 | (Note 1) | N/A |

Note 1: Verdict after the resolution of the Annual Shareholders' Meeting.
Note 2: Price-Earnings ratio = Average per share closing price of the year/earnings per share.
Note 3: Price-Dividend ratio = Average closing price per share of the year/cash dividends per share
Note 4: Cash dividend yield %= cash dividend per share/current year average per share closing price.

(VII) Dividend Policy and Implementation Status

(1) Dividend policy as set out in the Articles of Association:
The Company's industrial life cycle is still in the growth stage. More than 5% of the total dividend distribution of shareholders is planned to be distributed in cash, and the rest will be distributed in the form of shares.

(2) The Company's Board of Directors' plan for reserve distribution and capital reserve allocation for FY2019 is as follows:

1. The surplus distribution of cash dividend of NT$1,000 per thousand shares (rounded off to the nearest dollar), as approved in the 2020 Annual Shareholders' Meeting , authorizes the Chairman of the Board to set a separate ex-dividend date, payment date, and other related matters.
2. If the Company converts employee stock option into ordinary shares, which affects the number of shares outstanding and changes in the distribution rate, it is proposed to authorize the Chairman of the Board to make the adjustment and announce.

(3) Any expected material changes to the dividend policy shall be further explained:
The Company's dividend policy shall consider the company's current and future investment environment, capital requirement, domestic and foreign competition conditions, and capital budgets, in order to safeguard the shareholders' interests, maintain a balanced between dividend payouts and long-term financial plan. On an annual basis, the Board of Directors will formulate a distribution plan and report it to the Shareholders' Meeting. If there is a surplus in the Company's annual accounting, the Company shall, in the following order, pay taxes and make up losses, set aside 10% of the statutory surplus reserve and if necessary, allocate a special surplus reserves. At least 20% of the financial year's profits shall be distributed as dividends and bonus after allocating a reasonable amount according to the needs of business operations.

(VIII) The impact on the Company's business performance and Earnings Per Share (EPS) for allotment of free shares proposed at the shareholder's meeting: N/A

(According to the regulations of Financial Supervisory Securities (6) No. 0930005938 "Regulations Governing the Publication of Financial Forecasts of Public Companies" by the Financial Supervisory Commission on December 9, 2014 , the Company does not need to disclose the financial forecast information for 2019)

(IX) Employees' Compensation and Directors' and Supervisors' Remuneration

1. Quantity or scope of compensation for employees, Directors, and Supervisors as prescribed under the Articles of Incorporation:
Article 24-1 of the Company's Articles of Association stipulates that the Company shall allocate no more than five percent (5%) of its annual profits for compensations to the Directors and no less than one percent (1%) for compensations to the employees. However, the Company shall set aside a sufficient

amount to offset its accumulated losses. The compensation shall be distributed, in shares or in cash, to the employees of the Company or the qualified employees of the affiliated companies.

The profit for the year referred in the first clause is referred to the Profit Before Tax for the year, before deducting employees' compensation, and remuneration to Directors and Supervisors.

2. The basis for estimating the amount of compensation and remuneration to the employees, Directors, and Supervisors in the current period shall be the basis for calculating of the number of shares to be distributed as employees' remuneration, and the accounting treatment of the discrepancy, if any, between the actual distributed amount and the estimated figure:

   The basis for estimating the employees' compensation and the Directors' and Supervisors' remuneration during the current period is detailed in the aforementioned "1. Statement". When the actual number of employees' compensation and the Directors' and Supervisors' remuneration is different from the estimated amount, this shall be an accounting estimates changes and will be adjusted in the profit and loss for the following year.

3. Information of the proposed employees' comentation approved by the Board of Directors:

| | |
|---|---|
| Remuneration to Directors and Supervisors<br>Cash (NT$) | 5,993,967 |
| Employees' Compensation<br>Cash (NT$) | 29,969,836 |
| Proposed distribution of employee shares compensation<br>Amount | — |
| The ratio of the total Net Profit After Tax and otal employees' compensation for the current period | — |
| Estimated Earnings Per Share after proposed allotment of employee remuneration and Directors’ and Supervisors' remuneration: (NTD) | 1.78 |

4. Distribution of employee bonus and Directors' and Supervisors' remuneration from the earnings of 2018:

| | 2018 | | | |
|---|---|---|---|---|
| | Actual distributed amount as resolved in the Shareholders' Meeting | Proposed distribution by the Board of Directors | Discrepancies | Reason |
| I. Distribution | | | | |
| 1. Employees' Cash Compensation (NT$ thousand) | 44,457 | 44,457 | — | — |
| 2. Employees' Shares Bonus | | | | |
| (1) Amount | — | — | — | — |
| (2) Proportion of total Net Profit After Tax and total employees' compensation for the current period | — | — | — | — |
| 3. Remuneration for Directors and Supervisors (NT$ thousand) | 8,891 | 8,891 | — | — |
| II. Relevant information on Earnings per Share: | | | | |
| 1. Original Earnings Per Share (Note 1) | NT$2.52 | NT$2.52 | — | — |
| 2. Calculation of Earnings Per Share (Note 2) | NT$2.52 | NT$2.52 | — | — |

Note 1: The calculation was not adjusted according to the ratio of earning reserves and employee compensation to the increase of capital in 2019.

Note 2: The calculation of Earnings Per Share = (Net Profit - employees' compensation -Directors' and Supervisors' remuneration) / (weighted average number of shares outstanding in the current year)

(X) Shares Buyback: None.

II. The issuance of corporate bonds, preferred shares, overseas depository receipts, employee stock options, and mergers and acquisitions (including mergers, acquisitions, and divestment) and implementation of funds utilization plans.

(I) Issuance of corporate bonds: None.

(II) Issuance of preferred shares: None.

(III) Issuance of overseas depository receipts: None.

(IV) Issuance of employee stock options:

1. Issuance of employee stock options

As at March 31, 2020

| | |
|---|---|
| Category of employee stock options | The Company received the employee stock options of the original Eon Silicon Solution Inc. due to the merger |
| Declaration Effective Date | May 5, 2016 |
| Date of Issuance (Placement) | May 5, 2016 |
| Number of Options Issued | 1,175,443 |
| Ratio of subscribable shares to total issued and outstanding shares | 0.41% |
| Duration of Subscription | Duration till August 18, 2023 |
| Method for Exercising the Options | Issuance of New Shares |
| Restrictions on the Option Exercise Period and Exercise Ratio (%) | Expiration of 2 years: 50%<br>Expiration of 3 years: 75%<br>Expiration of 42 years: 100% |
| Shares Exercised | - |
| Total Value of Shares Subcribed by Exercising Option | - |
| Number of Shares Unsubscribed | 543,506 |
| Subscription Price Per Share of the Unsubscribed Shares | NT$ 59.20 to 303.40 |
| Ratio of the Amount of Unsubscribed Options to the Total Number of Issued Shares | 0.19% |
| Impact to Shareholders' Equity | Limited impact of dilution to the existing ordinary shareholders' equity |

2. Restriction on employees' right to subsribe new shares: None.

3. The names of the managers and top ten employees who obtained the employee stock option certificates, and the status acquisition and subscription: None.

4. The names of the managers and top ten employees who obtained the new restricted employees' right shares, and the acquisition status: None.

(V) Mergers, acquisitions or issuance of new shares to acquire shares of other companies: None.

(VI) Implementation of capital utilization plan: Up to the quarter preceding the date of publication of the Annual Report, the Company has no incomplete issuance or placement of private securities or completed placement where the benefits of the plan have yet to be realized in the past three years.

# Business Operations Overview

## I. Business Activities

### (I) Business Scope

The Company is a professional integrated circuit (IC) design company, the main business is research, development, manufacturing, and sales of DRAM, Flash Memory, analog integrated circuit, analog and digital mixed-signal IC and product design related to the Company's business and R & D technical services. The IC revenue in 2019 was NT$11,983,479 thousand, accounted for 100% of the operating ratio.

With the increasingly enhanced functions of terminal electronic products, the easier operation interface and the humanized application interface and functions designed by its application software, such as artificial intelligence (AI), the imminent fifth generation mobile communication generation (5G) and entering of the commercial stage, due to the characteristics of faster transmission, high-frequency bandwidth, high density and low latency, it is conducive to the development of services such as big data, artificial intelligence, and the Internet of Things, which can drive value-added innovative applications such as high-quality audio-visual entertainment, smart medical, smart factories, self-driving cars, drones, and smart cities, as well as various emerging application fields to make memory ICs a key component of electronic products. The relative capacity, operating speed and low power consumption requirements are also becoming stricter. In addition to continuing to focus on the development of high-density, high-speed and low-power memory ICs, the company will also speed up the development of flash memory, analog, analog and digital mixed-signal ICs in response to industry development and market demand. The product line enhances product competitiveness and develops towards product diversification.

### (II) Industry Overview

1. Current situation and development of the industry

According to WSTS statistics, the global semiconductor market sales value in 19Q4 was US$108.3 billion, a 0.9% increase from the previous quarter (19Q3) and a 5.5% decline from the same period last year (18Q4); sales volume reached 237.2 billion units, a decline of 1.6% from the previous quarter (19Q3) , A decline of 4.0% from the same period last year (18Q4); ASP was US$0.457, an increase of 2.5% from the previous quarter (19Q3) and a decline of 1.6% from the same period last year (18Q4).

The total annual sales value of the global semiconductor market in 2019 reached US$412.1 billion, a 12.1% decline from 2018; the total sales volume in 2019 reached 932 billion, a decline of 7.2% from 2018; the ASP of 2019 was US$0.442, a decline of 5.3% from 2018.

The sales value of the US semiconductor market reached US$22.5 billion in 19Q4, an increase of 11.2% from the previous quarter (19Q3) and a decline of 10.8% from the same period last year (18Q4). The sales value of the Japanese semiconductor market reached US$9.1 billion, a decline of 2.6% from the previous quarter (19Q3) and a decline of 8.3% from the same period last year (18Q4). The European semiconductor market sales value reached US$ 9.6 billion, a decline of 4.7% from the previous quarter (19Q3) and a decline of 7.6% from the same period last year (18Q4). The sales value of the Asian semiconductor market reached US$67.1 billion, declined 0.9% from the previous quarter (19Q3) and 2.9% from the same period last year (18Q4). Of which, China's market was US$38.4 billion, up 1.4% from the previous quarter (19Q3) and 0.8% from the same period last year (18Q4).

In 2019, the total sales value of the US semiconductor market reached US$78.5 billion, a decline of 23.8% from 2018; the sales value of the Japanese semiconductor market reached US$36 billion, a decline of 10.0% from 2018; the sales value of the European semiconductor market reached US$39.8 billion, compared with 2018 A decline of 7.3%; the sales value of the semiconductor market in Asia reached US$257.8 billion, a decline of 8.8% from 2018. Of which, the sales value of China market reached US$ 114.6 billion, declined 8.7% from 2018. The global semiconductor market reached a total annual sales value of US$ 412.1 billion in 2019, declined 12.1% from 2017.

According to the statistics of the ITRI Industrial Economics and Knowledge Center, Taiwan’s overall IC industry output value (including IC design, IC manufacturing, IC packaging, and IC testing) in the fourth quarter of 2019 (19Q4) reached NT$ 754.3 billion (US$ 24.4 billion), grew 4.5% compared with the previous quarter ( 19Q3) and an increase of 9.8% from the same period last year (18Q4). Of which, the output value of the IC design industry is NT$189.1 billion (US$ 6.1B), which is 1.7% higher than the previous quarter (19Q3) and 15.1% higher than the same period last year (18Q4); IC manufacturing is NT$426.2 billion (US$13.8 billion) ), An increase of 5.9% from the previous quarter (19Q3) and an increase of 8.3% from the same period last year (18Q4), of which the wafer foundry was NT$385 billion (US$ 12.5 billion), an increase of 8.1% from the previous quarter (19Q3), compared to The same period last year (18Q4) grew by 10.1%, and memory and other manufacturing was NT$41.2 billion (US$1.3 billion), which was 11.4% lower than the previous quarter (19Q3) and 6.4% lower than the same period last year (18Q4). The IC packaging industry was NT$96.5 billion (USD$ 3.1 billion), an increase of 3.2% from the previous quarter (19Q3) and an increase of 8.4% from the same period last year (18Q4). the IC testing industry was NT$ 42.5 billion (US$ 1.4 billion), which was an increase of 7.3% from the previous quarter ( 19Q3) and 6.3% from the same period last year (18Q4). The exchange rate of the New Taiwan Dollar to the US Dollar is set at 30.9.

According to statistics from the ITRI Industrial Economics and Knowledge Center, the output value of Taiwan's IC industry in 2019 reached NT$ 2.6656 trillion (US$ 86.3 billion), an increase of 1.7% from 2018. Of which, the output value of the IC design industry was NT$ 692.8 billion (US$ 22.4 billion), an increase of 8.0% from 2018. The IC manufacturing industry was NT$ 1,472.1 billion (US$ 47.6 billion), which was a decline of 0.9% from 2018. The workforce was NT$ 1.3125 billion (US$ 42.5 billion), an increase of 2.1% from 2018. Memory and other manufacturing was NT$ 159.6 billion (US$ 5.2 billion), a decline of 20.4% from 2018. The IC packaging industry was NT$346.3 billion yuan (US$ 11.2 billion), an increase of 0.5% from 2018. The IC testing industry was NT$ 154.4 billion (US$ 5.0 billion), an increase of 4.0% from 2018. The exchange rate of the New Taiwan Dollar to the US Dollar is set at 30.9.

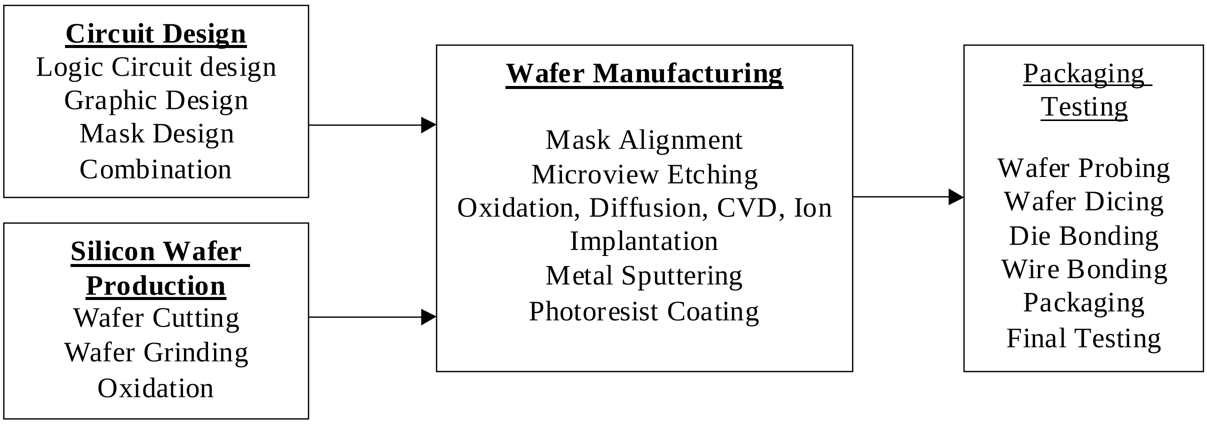
The statistical results of Taiwan's IC industry output value from 2016 to 2019

Unit: NT$100million

| | 2016 | 2017 | 2018 | Growth Rate in 2018 | 2019 | Growth Rate in 2019 |
|---|---|---|---|---|---|---|
| IC Industry Output Value | 24,493 | 24,623 | 26,199 | 6.4% | 26,656 | 1.7% |
| IC Design Industry | 6,531 | 6,171 | 6,413 | 3.9% | 6,928 | 8.0% |
| IC Manufacturing Industry | 13,324 | 13,682 | 14,856 | 8.6% | 14,721 | -0.9% |
| Wafer Foundry | 11,487 | 12,061 | 12,851 | 6.6% | 13,125 | 2.1% |
| Manufacturing Own Products | 1,837 | 1,621 | 2,005 | 23.7% | 1,596 | -20.4% |
| IC Packaging Industry | 3,238 | 3,330 | 3,445 | 3.5% | 3,463 | 0.5% |
| IC Testing Industry | 1,400 | 1,440 | 1,485 | 3.1% | 1,544 | 4.0% |
| IC Product Output Value | 8,368 | 7,792 | 8,418 | 8.0% | 8,524 | 1.3% |
| Global Semiconductor Growth Rate | 1.1% | 21.6% | - | 13.7% | - | -12.1% |

Source: TSIA ITRI IEK (2020/02)

2. Semiconductor upstream, middle and downstream correlation diagram




The following describes the relative industrial characteristics of the abovementioned IC industry upstream, midstream and downstream, as follows:

A. IC Design

IC design company is an integrated circuit product design company. Its main business is to design product sales or design directly entrusted by the customers. It is a brain-intensive industry, it requires much smaller capital than the wafer manufacturing plants. There is a fairly complete semiconductor industry support structure in Taiwan and IC design talents are increasingly abundant, which has prompted many manufacturers to invest in this industry.

B. IC Manufacturing and Foundry

The main business of the IC manufacturing company is to convert the designed circuit into a chip with sophisticated equipment, complex manufacturing processes, and strict quality control. This industry is capital and technology-intensive, and the barriers to entry are quite high. At present, the cost of constructing a 12-inch wafer fab is about NT$ 100 billion, and the subsequent maintenance and research and development costs must continue to be invested to maintain the effective operation of the IC fab.

C. IC Packaging and Testing

However, the barriers to entry for this industry are much lower than those for wafer manufacturing, and its profit comes from the fixed revenue of processing. The key factors that affect its profitability are the equipment utilization rate and personnel costs. The IC design industry is an upstream industry in the industrial value chain. Before the final product is completed, the main processes of photomask, manufacturing, packaging, and testing are required. As far as industrial development trends are concerned, processes such as photomask, packaging, and testing are all directed towards the mode of commissioning production by external professional companies.

3. Product Development Trends and Competition

A. High Degree of Integration

With the evolution of Windows operating system software and the continuous development of diversification of application software, DRAM products have been developed towards high degree of integration. The current mainstream market is 8 GB (DDR4) and 4 GB (DDR3).

B. High Speed

DRAM and CPU have an apparent gap in data transmission speed for a long time, and it has become the bottleneck of PC's overall system performance. To solve this problem, many high-speed DRAM architectures have been proposed, such as DDR3/DDR4 and RAMBUS. In order to adapt to the requirements of network communication products with different performances, such as switches and routers, SRAM (Zero Bus Turnaround SRAM) with high-frequency bandwidth and high-speed operation capability is also introduced due to the mixed reading and writing operations.

C. Low Power Consumption

With the continuous increase of CPU computing speed and the application of portable electronic products, characteristics such as low power consumption and low voltage are necessary to achieve power-saving or avoid the problem of overheating of components.

D. Reduced Crystallite Size

The continuous decline in the price of memory IC products is a characteristic of the industry. To maintain the competitive position and profitability of the products, with the design and process control, the output quantity of a single wafer is increased and the high quality rate is being maintained, only then could the Company effectively reduce product costs and enhance market competitiveness.

4. Product Competition

The Company's products are mainly based on niche memory. At present, the main domestic and foreign competitors are as follows:

| Domestic Competitors | Foreign Competitors |
|---|---|
| Nan Ya Technology, Etron, Powerchip, Winbond | Samsung, Hynix, Micron |

(III) Technology and R&D Overview

(1) Technical aspects of the business activities

The Company is a professional memory IC design company. It owns the core technology of memory IC design. The members of the R&D design team are well-versed in the design profession for many years and possess extensive practical experience. Since the Company can control the development and design technology of memory IC, it can adjust the product combination in time in response to market changes. Since its establishment, tbe Company has continued to develop memory ICs with high integration, high capacity, high speed and high performance by adhering to superb and outstanding design technology.

(2) Research and development

The Company's development and design of DRAM, Pseudo SRAM, NOR Flash, MCP, analog IC, and analog and digital mixed-signal IC are all focused on mastering "Time-to-Market". The future research and development is directed towards high-end process technology and high-integration product development.

(3) Education and experience of research and development personnel

The Company and its subsidiaries currently have a total of 294 R&D personnel, most of whom have a college degree or above and abundance of experience in R&D. With the pulse of the existing and future markets, they continue to develop new technologies and new products to continue to lead the industry and meet the market needs.

March 31, 2020

| Item | Education | | |
|---|---|---|---|
| | PhD | Master | University |
| Number of Persons | 7 | 192 | 95 |
| Percentage (%) | 2.38% | 65.31% | 32.31% |

(4) R&D expenses and technologies or products successfully developed in the most recent Financial Year:

A. R&D expense in the most recent financial year

Unit: NT$ 1,000

| Year / Item | 2019 | Q1 2020 |
|---|---|---|
| R&D Expenses | 739,882 | 228,086 |
| Growth Rate (%) | ( 10.68%) | - |

B. Successfully developed technologies or products

1. The Company's DRAM product line has completed the development of 16 MB - 2 GB SDRAM, DDR / DDR2 / DDR3 and other products with 12" 38/45/50 / 60nm process technology. The 25nm process has been initially developed and new products will be designed for mass production.
2. In terms of Flash Memory, the development of 65nm low-capacity 4 MB / 8 MB / 16 MB / 32 MB have been developed, and entered mass production, high-capacity 64 MB and 128 MB have also been completed development and entered mass production with 65nm.
3. Integrated NAND Flash and LP DRAM product technologies and launched MCP products.
4. In terms of non-memory products, various power management and IC solutions for Class D/AB power amplifiers have been developed.

(IV) Long-term and Short-term Development Plans

1. Short-term development plans

(1) Marketing strategy

A. Adopt marketing strategies based on product functions and cost-competitive advantages to provide customers with a stable supply.

B. Strengthen the interactive relationship with agents and distributors, continue to penetrate the domestic market, and actively develop handheld devices, PC-related equipment, and information appliance manufacturers in overseas markets to access direct business opportunities.

(2) Production strategies

A. Improve the use of process technology to reduce production costs.

B. Establish a good cooperative relationship with the wafer foundry and back-end packaging and testing outsourcers to ensure that production capacity, product delivery and quality can be achieved, and meet the demand for flexible scheduling.

(3) Product development

Use new generation process technology to develop mainstream products to reduce production costs and enhance product competitiveness.

(4) Human resources

Provide humane management and share operating profits with the employees to attract professional talents to join the management team and stabilize the Company's personnel flow, maintaining the Company's leading position in technology and operations.

2. Long-term plan

(1) Marketing strategy

Maintain revenue sources from proprietary products and design technical services that are functional/cost competitive to ensure the stability of profits.

(2) Production strategies

Ensure the production quality and cycle time of wafer foundry partners, including fabs, packaging and outsourced testing factories

(3) Product development

Continue to develop memory ICs with high integration, high speed, low power and small die size to increase product performance and enhance product competitiveness. Also, use the new generation process technology for the manufacturing of existing products to strengthen cost competitiveness. In addition, in response to industry development and market demand, the company will actively mass produce MCP, analog, analog and digital mixed-signal IC product lines, towards product diversification.

# II. Analysis of the market as well as production and marketing situation

## (I) Market analysis

(1) Sales of main products (services) by region

The Company's current product combination is mainly based on high-speed and high-integration DRAM/FLASH/analog IC and technical service income. The product sales regions in the past two years are as follows:

Units: Thousand NTD; %

| Geographical Region \ Year | | 2018 | | 2019 | | Q1 2020 | |
|---|---|---|---|---|---|---|---|
| | | Sales Value | Percent age | Sales Value | Percent age | Sales Value | Percent age |
| Internal sales | | 5,025,713 | 43 | 5,153,908 | 43 | 1,678,728 | 46 |
| External sales | Asia | 6,308,051 | 55 | 6,643,377 | 55 | 1,944,753 | 53 |
| | Others | 221,360 | 2 | 186,194 | 2 | 40,249 | 1 |
| | Sub-total | 6,529,411 | 57 | 6,829,571 | 57 | 1,985,002 | 54 |
| Total | | 11,555,124 | 100 | 11,983,479 | 100 | 3,663,730 | 100 |

(2) Market share

The global overall memory market has shrunk significantly in 2019 compared with 2018, resulting in global market size of US$ 67.2 billion. Based on the Company's 2019 revenue calculation, its share of the global market is approximately

0.59%.

(3) Future market demand and supply status and growth characteristics

The main factor affecting the price trend of DRAM products is the spread between supply and demand. In terms of supply, according to the research unit TrendForce, the supply of DRAM in 2020 grew by 12.2%, lower than 19% in 2019, and the largest growth in the supply side was memory for servers, with an estimated annual growth of up to 20%. The 2020 supply growth of others including graphics memory, mobile memory and PC memory is about 7-9%.

In fact, due to the slowdown in the market demand in the past two years, memory manufacturers have mostly cut their capital expenditure budgets for 2019-2020, reducing the expansion of equipment investment, and most of the 2020 will be in the advancement in process, including even Samsung, SK Hynix which has converted part of its DRAM production line to produce CMOS Image sensor, further reducing DRAM production capacity.

In terms of demand, DRAM application products can be divided into three categories: the first category is computers and relevant products, such as desktop computers, notebook computers, workstations, servers, printers, scanners, DVD-ROM, tablet computers and mining machines, etc.; the second category is network communication application products, mobile devices, ADSL, router (Switch/Router), Internet of Things, Internet of Vehicles, cloud data center, 5G communication and artificial intelligence (AI), etc.; the third category is consumer applications, such as DVD (Blu-ray) players, digital set-top boxes, digital cameras, iPod music players (MP3 Player), game consoles (PS4, XBOX, Wii), LCD (quantum Point) TV and smart voice assistant. On the demand side, the annual demand growth in 2020 is about 17.5%, with the largest growth being in the field of smartphones and servers, mainly due to the increase in the average capacity of the internal memory of each smartphone or server. For smartphones, after the launch of 5G phones next year, the average carrying capacity of each mobile phone will increase from 3.76 GB to 4.25 GB, an annual growth of 13%; the memory for servers will be increased from 303 GB to 396 GB, an annual growth of 30.9 %.

It is estimated that the market demand for DRAM in 2020 is about 72,862M (approximately 2 GB), of which mobile memory accounts for 39.6%, server memory accounts for 34.9%, PC accounts for 12.6%, and consumer accounts 7.8%, and drawing memory accounted for 5.1201%. It can be seen that what affects the most demand for DRAM is the server and the mobile memory. Among them, the server will regain growth in 2020 after a full year of 2019 of CPU shortages and customers' downward pressure on inventory.

(4) Competitive niche

A. Core competitiveness of design and R&D

The Company's design and development team has accumulated many years of practical experience, and can effectively control the performance and cycle time of product development, so as to fully access the market opportunities. This is proved by the Company's successful design and development of a variety of market-leading product lines.

B. Long-term procurement of outsourced foundry production capacity

Since the Company's business has grown steadily, it is able to give outsourcing foundries a stable order quantity. At the same time, through product design and technical services, it can still help the fab to use the new generation process to expand the product line and contribute to fab capacity utilization. The establishment of this cooperation model promotes a more stable cooperative relationship between the two parties, which can ensure that the Company's wafers are secured when the OEM production capacity is tight.

C. Competitiveness of cost structure

The Company's operating team, in addition to a strong R&D team, also includes professionals in processing, packaging, and testing. It can assist various professional OEM partners in process improvement and yield improvement, thus establishing an effective reduction of the production cycle and lower product production cost.

D. Good interaction with agency dealers

The R&D capabilities and cost competitiveness cultivated by the Company can launch the products in time as required by the market, and actively integrate with the logic chips represented by the distributors to form a complete turn-key solution to provide to system manufacturers. This will further enhance the value of products/services and establish a long-term and stable mutually beneficial relationship with well-known domestic and international distributors, which will greatly help the sales and promotion of the Company's products.

(5) Advantages, disadvantages and countermeasures of the development prospect:

Favorable factors

A. With the global economic boom gradually recovering, the demand for technology products in emerging markets has become the main growth driver of the global technology industry. It is expected that the demand for technology products in emerging markets will continue to grow in 2019.

B. The rapid development of smartphones, personal computers and workstations in emerging markets, coupled with the rise of multimedia product applications and the rise of the Internet (Internet of Things, Internet of Vehicles, Cloud Data Center, 5G, Artificial Intelligence (AI)). In the long-term, the demand for the memory IC market has shown steady growth.

C. The market demand for products is extensive, including computer peripherals, communications and consumer products. In addition to personal computers/workstations, it is also widely used in multimedia and information appliances, such as digital cameras, high-end graphics cards, DVDs, TVs, mobile phones, printers, set-top-Box, MP3, game consoles, ADSL, routers, and routers, mining machines and smart voice assistants.

D. The domestic semiconductor industry has a good development environment, and the industry's vertical division of labor system is perfect. The main raw material suppliers are located in the Hsinchu Science Park. The industry has a high degree of industry concentration, and it has great advantages in timeliness control and cost control.

E. Strong R&D team, high-quality personnel and extensive experience. Able to lead the design of products with high integration, high speed and cost advantage.

Unfavorable factors and countermeasures

A. Market products change rapidly, and product life cycle is shortened. IC products that meet market and customer needs need to be launched in time.

Countermeasures

Maintain excellent design and R&D capabilities, shorten product development time and production cycle to meet market demand.

B. There are many competitors in memory products and the price fluctuation is fierce.

Countermeasures

a. Actively develop niche products that meet market needs, develop new processes to reduce product costs, and increase the added value of products to enhance the overall competitiveness of products by establishing a good product quality image.
b. Expansion of non-memory product lines such as analog, analog and digital mixed signal integrated circuits, and the development of product diversification to diversify product concentration risks.

C. When the wafer fab's production capacity is insufficient, the increase in wafer prices will affect the profit margin

Countermeasures

Maintain long-term and stable cooperative relations with wafer foundry manufacturers.

D. Professionals are in short supply and high turnover

Countermeasures

Focus on the building professional image and the deep penetration of R&D technical ability in order to retain the required talents, and to further attract more professionals to join. At the same time, provide a good working environment, and to encourage employee's centripetal force towards the Company through dividends, employee stock options and a suitable and effective reward system design,

(II) Major uses and production process of the primary products

1. Usage of the main products

| Products | Major products | Usage/functions | Product application |
|---|---|---|---|
| Dynamic Random Access Memory (DRAM) | SDRAM, PSRAM, Mobile SDRAM/DDR, DDR1/DDR2/ DDR3/DDR4/ SDRAM Product line | Main memory components of various high-end personal computers and peripheral devices. The main function is data storage during system operation. | Consumer products:<br>DVD-Player, Set-Top-Box, Digital Still Camera, Scanner, VGA Card, HDD and Printer<br>Network products:<br>Cable Modem, ADSL, 5G Products |
| | | The memory element used in portable commodity equipment a low-power consumption feature. | Portable device such as mobile phone, PDA and HPC. |
| | | The basic components of various high-end computer display memories. The main function is to store the data of each pixel on the fluorescent screen. | Graphics cards and multimedia video cards, flat panel TV (liquid crystal / plasma TV) and high-end Desktop/notebook PC, servers, workstations and computer peripherals, etc. |

| Products | Major products | Usage/functions | Product application |
|---|---|---|---|
| NOR flash memory | | It is a non-volatile memory element that can be read and written at high speed that can be used to write fixed boot programs in computers or electronic devices, called "Code Flash", or it can be used for wireless cell phone control and data access. | Desktop/notebook PC, server, workstation, and storage and use of boot programs for various computer equipment products; or used to write fixed boot programs for consumer electronic devices (such as DVD DVR, etc.), or it can be used for wireless cell phone control and data access. |
| MCP products | | Integrate memory ICs such as NAND Flash and LP DRAM for data access of handheld related product systems. | Used in mobile communication data card and other mobile communication related product systems. |
| Audio processing IC (including Class D audio amplifier, A/D & D/A converter, Codec IC, etc.) | | It is a mixed-signal IC product, which is the basic component of audio processing/output of various computers or electronic equipment, used for analog/digital conversion and signal amplification processing of various audio. Of that, the Class D audio amplifier has the feature of low-power consumption and high-amplification efficiency because it is a digital amplifier. | It is suitable for audio processing of various electronic products, including audio transmission and amplification output of PC/notebook, TV, mobile phone, MP3, car/home audio. |
| Power management (Power IC) | | It is an analog IC product, which is a key component of power management for various electronic equipment systems. | Suitable for various 3C equipment and optical component system power management applications. |
| Technical service | | Technical services for memory, power management and audio IC product design and development. | |

2. Production Process

The Company's integrated circuit manufacturing process is mainly divided into the following stages:

Development and design: After determining product specifications, developing design components and selecting design criteria; designing the chip architecture and layout planning of various circuit items on the chip, and then planning circuit design and layout; making this layout file into a photomask .

Wafer manufacturing: Repetitive processes such as photolithography, etching, oxidation, and diffusion are used to design and manufacture the circuit on the photomask layer by layer on a silicon wafer.

Packaging test: The wafer needs to be tested by Probe Card to select the chip with normal function and meet the design requirements, and then to be packaged and shipped.

(III) Supply of primary raw materials

The Company's main raw material is wafers, which are mainly supplied by well-known semiconductor companies at home and abroad. Good cooperative relationships are being maintained currently.

(IV) Names of customers who have accounted for more than 10% of total purchases (sales) in any of the most recent two financial years, their purchases and sales amounts and proportions, and reasons for changes:

1. Main sales customers

Unit: NT$1,000

| | 2018 | | | | 2019 | | | | Q1 2020 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Item | Name | Amount | Ratio to Net Revenue for the FY (%) | Relationship with the Issuer | Name | Amount | Ratio to Net Revenue for the FY (%) | Relationship with the Issuer | Name | Amount | Ratio to Net Revenue for the FY (%) | Relationship with the Issuer |
| 1 | Company A | 2,652,618 | 23 | Nil | Company A | 2,724,676 | 23 | Nil | Company A | 948,539 | 26 | Nil |
| 2 | Others | 8,902,506 | 77 | | Others | 9,258,803 | 77 | | Others | 2,715,191 | 74 | |
| | Net Revenue | 11,555,124 | 100 | | Net Revenue | 11,983,479 | 100 | | Net Revenue | 3,663,730 | 100 | |

Reasons for Change:

The Company's products are mainly sold through agents, and Company A is the Company's main agent. Due to the increase in business volume in 2019, the revenue of Company A has increased compared with 2018.

2. Main Purchase Suppliers

Unit: NT$1,000

| | 2018 | | | | 2019 | | | | Q1 2020 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Item | Name | Amount | Ratio to Net Revenue for the FY (%) | Relationship with the Issuer | Name | Amount | Ratio to Net Revenue for the FY (%) | Relationship with the Issuer | Name | Amount | Ratio to Net Revenue for the FY (%) | Relationship with the Issuer |
| 1 | Company A | 6,470,763 | 59 | Nil | Company A | 5,196,477 | 59 | Nil | Company A | 2,228,612 | 61 | Nil |
| 3 | Company B | 837,448 | 8 | Nil | Company B | 1,010,349 | 11 | Nil | Company B | 345,549 | 9 | Nil |
| 4 | Others | 3,648,152 | 33 | | Others | 2,681,660 | 30 | | Others | 1,067,667 | 30 | |
| | Net Purchase | 10,956,363 | 100 | | Net Purchase | 8,888,486 | 100 | | Net Purchase | 3,641,828 | 100 | |

Reasons for Change:

The Company is a professional IC design company. The main cost structure in the production process is wafer raw materials and outsourced processing fees, while wafer selling prices and outsourced processing fees are closely linked to the semiconductor business cycle. In the semiconductor industry in 2019, due to the slowdown in the global economic climate, the average unit price of wafers and outsourced processing fees have generally declined, so the value and proportion of major purchasers in 2019 have changed compared with 2018.

(V) Production Volume Table for the last two FY

Unit:1 ,000; NT$1,000

| Item | 2018 | | 2019 | |
|---|---|---|---|---|
| | Production | Production | Production | Production |
| Integrated Circuit (IC) | 1,757,430 | 6,378,488 | 996,647 | 5,427,047 |

Note: The Company's products are outsourced to external professional companies for processing, so no capacity is disclosed.

(VI) Sales quantity and value for the last two FY

Unit:1 ,000; NT$1,000

| Item \ FY | 2018 | | | | 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | Internal sales | | External sales | | Internal sales | | External sales | |
| | Sales Volume | Sales Value | Sales Volume | Sales Value | Sales Volume | Sales Value | Sales Volume | Sales Value |
| Integrated Circuit (IC) | 584,375 | 5,025,713 | 615,371 | 6,529,411 | 619,608 | 5,153,908 | 738,319 | 6,829,571 |
| Total | 584,375 | 5,025,713 | 615,371 | 6,529,411 | 619,608 | 5,153,908 | 738,319 | 6,829,571 |

# III. Employee information for the most recent two financial year up to the date of publication of the Annual Report

| Year | | 2018 | 2019 | Until March 31, 2020 |
|---|---|---|---|---|
| No. of employees | Management Personnel | 119 | 147 | 138 |
| | R&D Technicians | 348 | 353 | 358 |
| | Operators | — | — | — |
| | Total | 467 | 500 | 496 |
| Average Age | | 40.20 | 40.65 | 40.89 |
| Average Year of Service | | 8.37 | 8.37 | 8.17 |
| Academic Distribution Ratio | PhD | 2.5% | 2.0% | 2.2% |
| | Master | 49.4% | 49.6% | 50.4% |
| | University | 45.8% | 46.0% | 45.2% |
| | High school | 2.3% | 2.4% | 2.2% |
| | Below high school | — | — | — |

# IV. Disbursements for Environmental Protection

(I) In the financial year 2019 up to March 31, 2020, there has been no penalty arising from environmental pollution or industrial safety incidents or any disciplinary authority.

(II) Countermeasures for environmental protection and industrial safety in the future:
he Company has always upheld the spirit of the ISO 14001 environmental management system and is committed to complying with international advanced environmental standards. It is committed to providing and maintaining a working environment that is compliant with laws and regulations and at the same time which is an industrial and practical working environment. The Company also continuously improves in its attempt to eliminate the risk of any predictable causes of environmental pollution. Through the preventive measures of process optimization, the Company will continue to improve in the

reduction of the emission of hydropower substances and pollutants, and strive to implement the concept of designing for the environment, and become a sustainably developed green enterprise. In order to implement the effectiveness of environmental management, the Company plans to establish the ISO 14001 environmental management system in 2007, and the verification and certificate were obtained in January 2008.

(III) Environmental protection policy and improvement plan

(1) Future quantitative management of energy saving and carbon reduction

After the Company introduced the ISO-14001 environmental management system and continued to implement a number of energy-saving and carbon reduction measures, it has achieved significant performance so far; based on the management principle of continuous improvement, the Company set relevant quantitative management goals for improvement, with a view to making further contributions to protecting the global environment, as explained below:

A. Quantitative management objectives for greenhouse gas reduction, water resources management and waste management:

1. Greenhouse gas reduction

The Company's quantitative management goals for greenhouse gas reduction are as follows: The per capita greenhouse gas emission decreases by 4% in 2025 compared with 2019.

2. Water resources management

In response to climate change, stable water supply has become a global issue. To fulfill its social responsibilities and respond to global water shortage issues, the company has set quantitative goals for water resources management as follows: By 2025, the overall per capita water consumption will be reduced by 2% compared with 2019, with a view to taking concrete actions to face the challenges of climate change with global corporates.

3. Waste reduction

The Company's goal of quantitative management of waste reduction: The personal output of waste in 2025 will be 2% lower than that in 2019.

B. Measures to achieve goals:

1. Greenhouse Gas Reduction
- Evaluation of public area lighting system to be replaced by LED lights
- The air-conditioning temperature of the office area is set at 26 ~ 28°C.
- Turn off non-essential lighting during meals and breaks.
- Promote a paperless policy and import electronic forms to reduce paper consumption.
- Use environmentally friendly tableware for dining and encourage employees to bring their own tableware to reduce the use of disposable tableware.
- Use green products and select equipment and appliances with energy-saving labels.
- Encourage employees to use stairs instead of elevators.

2. Water Resource Management
- Display water-saving slogans to develop the habit of saving water.
- Monitor water consumption and address any abnormalities immediately to avoid wasting water resources.
- Reduce the amount of environmental cleaning agents and reduce the amount of cleaning water.

3. Waste Management
- Implement a resource recycling classification mechanism.
- Promote employee waste reduction.

- Comply with the relevant provisions of environmental regulations and implement environmental policies.

(2) Climate change assessment and countermeasures

The United Nations Intergovernmental Panel on Climate Change (IPCC) pointed out that global warming will exceed 1.5°C in 2030 at the earliest. Climate change has become an issue that should be ignored.

ESMT is of the view that climate change is becoming more and more serious, and there is a high degree of correlation between product production and the supply chain of related industries. In order to continue to strengthen the Company's ability to respond to and combat climate change, the Company will disclose detailed environmental and climate-related measures in an appropriate manner, and disclose the risks and opportunities brought by the climate to the Company's operations with reference to the Task Force on Climate-related Financial Disclosures (TCFD). From the four major aspects of governance, strategy, risk management, and indicators and objectives, the Company will strengthen its governance of climate change in response to the expectations of external stakeholders about the Company's management of climate change.

| | Risk Item | Description | Response measures |
|---|---|---|---|
| Climate related risks | Energy price increase | In response to the greenhouse gas reduction requirements, the pressure to increase energy prices and the efficiency of related equipment used has led to an increase in energy costs. | Promote workplace energy saving and carbon reduction measures |
| | | | Set annual power saving goals |
| | Stricter fuel/energy/environmental regulations | Increase in operating and manufacturing costs, related fines, litigation cases, and policy changes led to asset impairment | Continue to monitor and identify the impact of changes in regulations |
| | | | Communicate with industry association and participate in government regulations courses |
| | | | Strengthen awareness on laws and regulations and training |
| | Increase in frequency of extreme climate events | Extreme weather events will cause loss of property and equipment, and may even cause business interruption | Improve the recovery time of the operation-related support system and shorten the recovery time to normal business operation |
| | | | Implement a mechanism for handling major abnormal events |
| | | | Continuously supervise suppliers to carry out plans and drills for extreme climate events |
| | | | Assess and build backup equipment |

| | | | |
|---|---|---|---|
| Climate-related opportunities | Market transformation/ technology development | Develop low-carbon products, encourage suppliers to use low-carbon technology processes, and increase access to relevant markets | Evaluation and development of low-carbon products and markets |
| | | | Encourage existing suppliers to use low-carbon technology processes, and prioritize suppliers using low-carbon technology processes |

(IV) The relevant information on the implementation of RoHS (Restriction of Hazardous Substances in Electronic and Electrical Equipment) in the EU is as follows?:

(1)The Company's management measures

1.The process changes must comply with EU RoHS and customers' green production specifications.

2.Notify suppliers of environmental protection and green production specifications and request relevant certification documents.

3.Audit suppliers from time to time and consult suppliers to establish green supply chains.

(2)The Company's products comply with the relevant hazardous substance restrictions of RoHS regulations, so they do not affect the Company's sales.

(V) Annual greenhouse gas emissions, water consumption and the total weight of waste in the past two years

In response to global climate change, the Company reduced and managed greenhouse gas emissions, implemented environmental justice, and fulfilled the responsibility to jointly protect the global environment. In addition, the Company actively responds to the Carbon Disclosure Project (CDP), and voluntarily disclosed its investigation in greenhouse gas emissions according to the World Business Sustainable Development Association (WBCSD) and the GHGProtocol issued by the Resource Research Institute (WRI). The results of the investigation are shown in the table below.

Table - Annual greenhouse gas emissions

| Year | Greenhouse gas emissions (year) | Unit (CO2 equivalent) |
|---|---|---|
| 107 | 2,849.68 | Tons |
| 108 | 3,191.78 | Tons |

Table - Water Consumption

| Year | Water Consumption | Unit |
|---|---|---|
| 107 | 15,919 | $M^3$ |
| 108 | 16,947 | $M^3$ |

Table - Total waste

| Year | Total Waste | Unit | Individual output | Unit |
|---|---|---|---|---|
| 107 | 10.56 | Ton | 25.69 | kg |
| 108 | 10.76 | Ton | 25.32 | kg |

## V. Labor Relations

(I) The systems and implementation status of the Company's employee welfare policies, continuing education, training, and retirement, as well as the agreements between the employees and employer, and employees’ rights and interests:

(1) Employee welfare policy

The Company provides a friendly and supportive working environment, allowing employees to achieve balance and harmony between work, family and life.

Measures and benefits related to work-life balance: Work:

- a. Flexible working hours and two days off a week that allow employees to arrange working hours flexibly to take care of their family or health.
- b. Provide employees with annual leave better than the Labor Standards Act.
- c. Provide employees with festival and birthday giftcard and festival bonuses.
- d. Organize the year-end party and give senior colleagues awards and bonuses to encourage them.
- e. In addition to labor (retirement), health insurance and group insurance, the Company also provides travel insurance for employees on business trips.

1. Family:
   - a. Friendly maternal protection measures including setting up breastfeeding rooms in the health center, and providing unlimited breastfeeding time.
   - b. Arrange one-on-one consultation with on-site physicians for employees after pregnancy and childbirth.
   - c. Provide various subsidies for employee birth and education.
   - d. Assist in the evaluation of special nursery centers, kindergartens and provide health education information related to childcare.
   - e. Handle parent-child communication and other related courses and lectures.
   - f. Organize activities such as parent-child travel for employees and their families to provide opportunities for communication and interaction between parents and children.
   - g. Provide group insurance for employees and their families, and provide professional on-site services and consultation.
2. Health: Staff assistance programs and health promotion activities provide employees with physical and mental health and safety
   - a. Provide regular labor health checks that are better than that required by regulations.
   - b. Established a health center to provide staff health management, health inspection and health education and consultation, and care for specific targets and arrange health consultations with on-site physicians.
   - c. Established fitness centers, basketball courts, badminton courts, music classrooms and other sports fitness and leisure spaces to encourage employees to maintain a healthy body.
   - d. The Employee Welfare Committee regularly handles various national and international travel, birthday celebrations and afternoon tea activities to adjust the physical and mental health of employees, strengthen employee communication and mutual interaction and connection.
   - e. Provide various subsidies for employees' marriage, bereavement, illness, childbirth and education.
   - f. Organize self-growth and stress relief related courses and lectures.
   - g. Provide meal subsidies for dining staff, and the Company has a staff restaurant that

provides buffet, pasta or light meals and other diverse options and calorie information.

(2) Continuous education, training and the implementation thereof

Depending on the needs of each employee's job capacity, future personal development, and the requirement of the Company's operational expansion, the Company formulates individual refresher training programs, and each department regularly formulates and implements its annual training plans every year. If requirements arise in the financial year, each department may, from time to time, submit an "Education and Training Requirement Questionnaire" to add the required training items , which should effectively achieve the purpose of enhancing objectives of the employees' work functions.

(3) Retirement System

In December 1998, the Company set up a special account for labor pension preparation in the Central Trust Bureau, which was allocated at 2% of the total monthly salary. The standard and method of payment of the pension application shall be handled in accordance with the provisions of the Labour Standards Act. Since the beginning of the implementation, no employees have applied for retirement. Since 1999 and in accordance with the Pension Bulletin No. 18, a qualified actuary is hired to conduct actuarial pension assessment. In addition, the Company has solicited the wishes of employees, and since July 1, 2005, according to the regulations of the new labor pension regulations, a retirement fund has been allocated to each employee 's pension account. Regarding the handling of employee retirement-related matters, it is understood to be handled in accordance with relevant regulations.

(4) Agreements between the employer and employees

The Company has set up labor management meetings in accordance with relevant laws and regulations to negotiate labor management issues through regular discussions. At the same time, through the operation of the employee welfare committee, the Company and the welfare committee cooperated to promote the improvement of employee welfare. In addition, the Company values humane management and recognizes the coexistence and co-prosperity of labor capital as a whole. Therefore, the two-way coordination and communication are adopted in the communication of labor and management issues, so that both parties can understand each other better to achieve the same goals.

(5) Measures to protect employees' rights and interests:

The Company handles all employee rights and welfare measures in accordance with the relevant laws and regulations to fulfill its maintenance responsibilities, and should be able to reasonably and fully protect employees' rights and interests.

(6) Work environment and protection for the physical safety of workers:

The Company spares no effort in workplace safety and health, and will continue to work on the safety and health prevention in the future, to prevent the injury of the workplace and the personal safety of employees through continuous improvement. The Company's occupational safety and health implementation results are as followsThe Company continues to invest in the work environment safety and health work, and will continue to invest in the prevention work of safety and health in the future,To continuously improve the prevention of injuries to the working environment and the personal safety of employees, the specific actions of the company are as follows:

## Occupational safety and health implementation results

### 1. Labor Operating Environment Monitoring

To understand the actual condition of the working environment in the labor workplace and assess the worker's exposure to the working environment, for which the Company conducts planning, sampling, measurement and analysis accordingly. To protect workers from harmful substances in the workplace and provide workers with a healthy and comfortable working environment, regular environmental monitoring is carried out every year to gradually understand the actual degree of hazards the workers are exposed to, thereby improving the on-site environment and preventing occupational disasters.

Table - Work Safety Performance

| Workplace safety inspection | |
|---|---|
| Workspace safety inspection | Daily inspection |
| Management by walking around | First level supervisor once a quarter |
| Work safety inspection in construction site | Conducted from time to time as needed |

## 2. Labor Safety and Health Committee

To prevent occupational disasters and ensure the safety and health of employees, ESMT has an internal occupational safety and health committee. It holds regular meetings every quarter to discuss labor safety and health related matters and promote various labor safety and health related businesses.

## 3. Personnel Safety and Health Training

Through education and training, ESMT enables employees to understand environmental, safety and health regulations, policies and the Company's environmental, safety and health commitments, enhances the Company's awareness on environmental impact, safety and health risks, and emergency contingency plans to fulfill environmental, safety and health goals and comply with environmental, safety and health.

The Administration Department is responsible for surveying the training needs of various safety, health and environmental protection related courses and organizing training plans. Each department participates in training as needed, and arranges relevant personnel to organize relevant safety and health education and training. In addition, contractors are also required to provide and participate in relevant training in accordance with the "Contractor Management Measures" to ensure the safety and health of the personnel in the Company.

Table - Work Safety Education Training and Promotion

| Year | Training participants | Average training man hour |
|---|---|---|
| 107 | 177 | 372 |
| 108 | 172 | 413 |

Table - Professional Work Safety Management Personnel

| Work safety personnel with professional license | |
|---|---|
| Type A Occupational Safety and Health Manager | 1 |
| Occupational Safety Manager | 1 |
| Occupational Safety and Health Manager | 1 |
| Operators of Forklift Over 1 Ton | 9 |
| Oxygen-Deficient Operations Supervisor | 1 |
| High-pressure Gas-specific Equipment Operators | 1 |
| High-Pressure Gas Container Operator | 1 |

| | |
|---|---|
| Radiation Safety Certificate for Operator | 5 |
| First Aid Personnel | 9 |
| Healthcare Personnel for Labor Health Services | 1 |
| Other | 3 |

## 4. Statistics of Disability due to Occupational Disasters

ESMT is committed to providing colleagues with a safe working environment. For accidents, the parties or surrounding personnel will notify the supervisor and the administrative department as soon as possible, and the work safety and nursing staff will provide assistance.

According to the Occupational Accident and Disability Certification of the Occupational Safety and Health Administration of the Ministry of Labor, traffic accidents beyond the Company are excluded. For occasion traffic contingency, ESMT held quarterly to explain the occurrence of the incident and the new personnel occupational safety and health course to conduct case publicity to prevent similar accidents from happening again through the occupational safety and health committee.

Table - Company's Work Safety Performance in the Past Two Years - Statistics of Employee Disability Injury

| Year | Fatal accident | Disability accident |
|---|---|---|
| 107 | Male: 0 Female: 0 | Male: 0 Female: 0 |
| 108 | Male: 0 Female: 0 | Male: 0 Female: 0 |

## 5. Measures for the Prevention and Management of Diseases Caused by Abnormal Workload

ESMT is a professional IC design company with a simple office environment. According to the provisions of Article 6 of the Occupational Safety and Health Act, to ensure the work safety of employees and their physical and mental health, employers should avoid overwork diseases caused by shifts, night work, long hours or other workload factors. "Only a safe and healthy workforce can ensure the competitiveness of the Company"; Labor is an important asset of a company. Based on the principle that prevention is better than cure, the provisions of the Occupational Safety and Health Act are implemented, and relevant measures to promote the physical and mental health of the workers are adopted to create a more friendly and healthy workplace environment for workers, and ensure their rights and interests. ESMT has established the “Measures for the Prevention and Management of Diseases Promoted by Abnormal Workloads” and adopted disease prevention measures and related management to ensure the physical and mental health of employees and prevent employees from causing diseases due to abnormal workloads. Nursing staff regularly evaluates and interviews with specialist doctors in the occupational medicine department, and makes follow-up recommendations and measures based on the interview records of physicians.

(II) Specify losses arising from labor disputes in the most recent year up to the publication date of this Annual Report, and disclose potential losses in the current and future periods as well as and countermeasures:

To uphold the belief of perfect care for the employees, the Company has a vacation and retirement system, and also a variety of welfare measures. Therefore, employees have a high degree of centripetal force to the Company. A harmonious relationship between labor and management is maintained, and thus, there was no loss arising from by labor disputes.

## VI. Important Contracts

| Nature of Contract | Counterparty | Term | Salient terms | Restrictions |
|---|---|---|---|---|
| Lease Contract | Science Park Bureau | March 1, 2001 to December 31, 2020 | Land Lease | Nil |
| Lease Contract | Science Park Bureau | August 6, 2010 to December 31, 2020 | Land Lease | Nil |
| Lease Contract | Science Park Bureau | August 27, 2014 to December 31, 2033 | Land Lease | Nil |

# Financial Overview

I. Balance Sheet and Profit and Loss Statement Summary for the 5 most recent financial years

(1) Balance Sheet Summary - Adopted International Financial Reporting Standards

1. Consolidated Balance Sheet Summary - Adopted of International Financial Reporting Standards (IFRS)

Unit: NT$ 1,000

| Item \ Financial Year | | FY 2015 | FY 2016 | FY 2017 | FY 2018 | FY 2019 | Financial Data as at March 31, 2020 |
|---|---|---|---|---|---|---|---|
| Current assets | | 7,018,162 | 7,800,779 | 8,499,324 | 9,206,455 | 9,497,077 | 10,516,932 |
| Available-for-sale financial assets - non-current | | 509,758 | 134,645 | 61,886 | - | - | - |
| Financial assets at fair value through other comprehensive profit or loss - non-current | | - | - | - | 59,300 | 50,776 | 76,716 |
| Investment accounted for using equity method | | 282,973 | 256,556 | - | - | 33,210 | 30,783 |
| Property, plant, and equipment | | 752,884 | 778,433 | 891,701 | 799,062 | 696,328 | 645,572 |
| Right-of-use assets | | - | - | - | - | 86 367 | 79,705 |
| Net in investment fixed assets | | 64,795 | 32,816 | - | 19,641 | 18,671 | 18,429 |
| Intangible assets | | 19,228 | 121,694 | 154,069 | 133,975 | 81,593 | 123,032 |
| Deferred income tax assets | | 2,340 | 2,323 | 2,454 | 5,174 | 4,174 | 3,811 |
| Other non-current assets | | 9,365 | 78,835 | 7,481 | 65,705 | 12,124 | 16,101 |
| Total assets | | 8,659,505 | 9,206,081 | 9,616,915 | 10,289,312 | 10,480,320 | 11,511,081 |
| Current liabilities | Before distribution | 1,922,519 | 2,296,257 | 2,412,330 | 3,011,680 | 3,025,945 | 3,747,941 |
| | After distribution | 2,250,141 | 2,701,059 | 3,052,777 | 3,440,318 | Undistributed | N/A |
| Non-current liabilities | | 41,007 | 34,173 | 34,444 | 33,194 | 113,596 | 106,453 |
| Total liabilities | Before distribution | 1,963,526 | 2,330,430 | 2,446,774 | 3,044,874 | 3,139,541 | 3,854,394 |
| | After distribution | 2,291,148 | 2,735,232 | 3,087,221 | 3,473,512 | Undistributed | N/A |
| Equity attributable to parent company | | 6,777,050 | 6,981,488 | 7,277,594 | 7,355,348 | 7,461,460 | 7,789,105 |
| Share capital | | 2,728,344 | 2,825,737 | 2,857,589 | 2,857,589 | 2,857,589 | 2,857,589 |
| Capital reserves | Before distribution | 152,778 | 256,073 | 116,645 | 59,072 | 104,305 | 102,672 |
| | After distribution | 98,165 | 79,266 | 47,716 | 59,072 | Undistributed | N/A |
| Retained profits | Before distribution | 3,670,737 | 3,995,965 | 4,635,058 | 4,576,008 | 4,645,411 | 4,957,077 |
| | After distribution | 3,397,728 | 3,767,970 | 4,063,540 | 4,147,370 | Undistributed | N/A |
| Minority interest | | 362,512 | 41,034 | ( 194,377) | – | ( 8,524) | 17,416 |
| Treasury shares | | ( 137,321) | ( 137,321) | ( 137,321) | ( 137,321) | ( 137,321) | ( 145,649) |
| Non-controlling interest | | ( 81,071) | ( 105,837) | ( 107,453) | ( 110,910) | ( 120,681) | ( 132,418) |
| Total equity | Before distribution | 6,695,979 | 6,875,651 | 7,170,141 | 7,244,438 | 7,340,779 | 7,656,687 |
| | After distribution | 6,368,357 | 6,470,849 | 6,529,694 | 6,815,800 | Undistributed | N/A |

Note 1: The financial information of the Company has been reviewed or audited by accountants.

2. Balance Sheet Summary of the Company - Adopted of International Financial Reporting Standards (IFRS)

Unit: NT$ 1,000

| Item \ Financial Year | | FY 2015 | FY 2016 | FY 2017 | FY 2018 | FY 2019 |
|---|---|---|---|---|---|---|
| Current assets | | 5,677,497 | 6,120,413 | 7,086,882 | 8,013,401 | 8,346,065 |
| Financial assets at fair value through other comprehensive profit or loss - non-current | | - | - | - | 29,650 | 25,388 |
| Investment accounted for using equity method | | 2,191,610 | 2,078,939 | 1,494,868 | 1,278,138 | 1,225,036 |
| Property, plant, and equipment | | 747,969 | 769,948 | 883,532 | 792,823 | 695,067 |
| Right-of-use assets | | - | - | - | - | 72,798 |
| Net in investment fixed assets | | 64,795 | 32,816 | - | 19,641 | 18,671 |
| Intangible assets | | 6,610 | 115,272 | 150,772 | 132,628 | 81,177 |
| Deferred income tax assets | | 2,340 | 2,316 | 2,454 | 5,174 | 4,174 |
| Other non-current assets | | 7,864 | 77,228 | 5,718 | 63,693 | 10,357 |
| Total assets | | 8,698,685 | 9,196,932 | 9,624,226 | 10,335,148 | 10,478,733 |
| Current liabilities | Before distribution | 1,880,272 | 2,180,922 | 2,311,832 | 2,946,250 | 2,912,373 |
| | After distribution | 2,207,894 | 2,585,724 | 2,952,279 | 3,374,888 | Undistributed |
| Non-current liabilities | | 41,363 | 34,522 | 34,800 | 33,550 | 104,900 |
| Total liabilities | Before distribution | 1,921,635 | 2,215,444 | 2,346,632 | 2,979,800 | 3,017,273 |
| | After distribution | 2,249,257 | 2,620,246 | 2,987,079 | 3,408,438 | Undistributed |
| Equity attributable to parent company | | 6,777,050 | 6,981,488 | 7,277,594 | 7,355,348 | 7,461,460 |
| Share capital | | 2,728,344 | 2,825,737 | 2,857,589 | 2,857,589 | 2,857,589 |
| Capital reserves | Before distribution | 152,778 | 256,073 | 116,645 | 59,072 | 104,305 |
| | After distribution | 98,165 | 79,266 | 47,716 | 59,072 | Undistributed |
| Retained profits | Before distribution | 3,670,737 | 3,995,965 | 4,635,058 | 4,576,008 | 4,645,411 |
| | After distribution | 3,397,728 | 3,767,970 | 4,063,540 | 4,147,370 | Undistributed |
| Other equity interest | | 362,512 | 41,034 | ( 194,377) | − | ( 8,524) |
| Treasury stock | | ( 137,321) | ( 137,321) | ( 137,321) | ( 137,321) | ( 137,321) |
| Non-controlling interest | | - | - | - | - | - |
| Total equity | Before distribution | 6,777,050 | 6,981,488 | 7,277,594 | 7,355,348 | 7,461,460 |
| | After distribution | 6,449,428 | 6,576,686 | 6,637,147 | 6,926,710 | Undistributed |

Note 1: The financial information of the Company has been reviewed or audited by the CPAs.

3. Consolidated Comprehensive Profit and Loss Summary - Adopted International Financial Reporting Standards (IFRS)

Unit: NT$1,000

| Item \ Year | FY 2015 | FY 2016 | FY 2017 | FY 2018 | FY 2019 | Financial data as at March 31, 2020 |
|---|---|---|---|---|---|---|
| Revenue | 9,266,149 | 9,300,534 | 10,456,519 | 11,555,124 | 11,983,479 | 3,663,730 |
| Gross profit | 1,443,727 | 1,421,717 | 2,056,683 | 2,128,927 | 1,802,208 | 707,392 |
| Operating profit (loss) | 344,324 | 309,551 | 731,398 | 806,415 | 574,943 | 337,519 |
| Non-operating income and expenses | 144,985 | 360,091 | 243,341 | 41,845 | 1,237 | 15,326 |
| Net profit before tax | 489,309 | 669,642 | 974,739 | 848,260 | 576,180 | 352,845 |
| Net profit from continuing operations | 484,981 | 581,339 | 862,058 | 716,194 | 505,611 | 311,614 |
| Loss from discontinued operations | - | - | - | - | - | - |
| Profit (loss) for the year | 484,981 | 581,339 | 862,058 | 716,194 | 505,611 | 311,614 |
| Other comprehensive income (net, after tax) | 338,032 | ( 319,950) | ( 233,490) | 337 | ( 7,888) | 25,940 |
| Total comprehensive income | 823,013 | 261,389 | 628,568 | 716,531 | 497,723 | 337,554 |
| Net profit attributable to the parent company | 490,506 | 597,835 | 865,167 | 706,508 | 497,405 | 311,666 |
| Net profit attributable to non-controlling interest | ( 5,525) | ( 16,496) | ( 3,109) | 9,686 | 8,206 | ( 52) |
| Total comprehensive profit attributable to parent company | 828,538 | 277,885 | 631,677 | 706,845 | 489,617 | 337,606 |
| Total comprehensive profit attributable to non-controlling interest | ( 5,525) | ( 16,496) | ( 3,109) | 9,686 | 8,206 | ( 52) |
| Earnings per share (NT$) | 1.85 | 2.19 | 3.11 | 2.52 | 1.78 | 1.11 |

Note 1: The financial information of the Company has been reviewed or audited by the CPAs.

4. Company's Comprehensive Profit and Loss Summary - Adopted International Financial Reporting Standards (IFRS)

Unit: NT$1,000

| Item \ Year | FY 2015 | FY 2016 | FY 2017 | FY 2018 | FY 2019 |
|---|---|---|---|---|---|
| Revenue | 9,225,567 | 9,255,474 | 10,415,576 | 11,491,609 | 11,964,770 |
| Gross profit | 1,412,158 | 1,371,678 | 2,002,960 | 2,053,252 | 1,745,049 |
| Operating profit (loss) | 449,630 | 416,592 | 803,092 | 855,921 | 578,899 |
| Non-operating income and expenses | 45,158 | 250,915 | 156,582 | ( 20,130) | ( 15,466) |
| Net profit before tax | 494,788 | 667,507 | 959,674 | 835,791 | 563,433 |
| Net profit from continuing operations | 490,506 | 597,835 | 865,167 | 706,508 | 497,405 |
| Loss from discontinued operations | - | - | - | - | - |
| Profit (loss) for the year | 490,506 | 597,835 | 865,167 | 706,508 | 497,405 |
| Other comprehensive profit (net, after tax) | 338,032 | ( 319,950) | ( 233,490) | 337 | ( 7,888) |
| Total comprehensive profit | 828,538 | 277,885 | 631,677 | 706,845 | 489,517 |
| Earnings per share (NT$) | 1.85 | 2.19 | 3.11 | 2.52 | 1.78 |

Note 1: The financial information of the Company has been reviewed or audited by the CPAs.

(2) Names of CPAs in the five most recent financial years and audit opinions

| Year | Name of the CPA | Name of CPAs | Audit opinion | Rema |
|---|---|---|---|---|
| FY 2015 | PricewaterhouseCoopers Taiwan | Yu-Kuan, Lin & Danie Lee | Modified unqualified opinions | Note |
| FY 2016 | PricewaterhouseCoopers Taiwan | Yu-Kuan, Lin & Danie Lee | Unqualified opinion | |
| FY 2017 | PricewaterhouseCoopers Taiwan | Ya-Huei Cheng & Danie Lee | Unqualified opinion | Note |
| FY 2018 | PricewaterhouseCoopers Taiwan | Ya-Huei Cheng & Danie Lee | Unqualified opinion | |
| FY 2019 | PricewaterhouseCoopers Taiwan | Ya-Huei Cheng & Danie Lee | Unqualified opinion | |

Note: The Company appointed PricewaterhouseCoopers Taiwan to attest the financial statement. Due to the rotation of internal work functions of the CPA accounting firm, the CPA was changed.

## II. Financial analysis for the five most recent financial years

### (1) Financial analysis - Adopted International Financial Reporting Standards (IFRS)

#### 1. Consolidated Financial Analysis - Adopted International Financial Reporting Standards (IFRS)

| Item | Year | FY 2015 | FY 2016 | FY 2017 | FY 2018 | FY 2019 | Financial data as of March 31, 2020 |
|---|---|---|---|---|---|---|---|
| Financial structure | Debts to total assets ratio (%) | 22.67 | 25.31 | 25.44 | 29.59 | 29.96 | 33.48 |
| | Long-term capital to PPE ratio (%) | 894.82 | 887.66 | 807.96 | 910.77 | 1,070.53 | 1,202.52 |
| Debt service ability | Current ratio (%) | 365.05 | 339.72 | 352.33 | 305.69 | 313.85 | 280.61 |
| | Quick ratio (%) | 165.49 | 186.51 | 197.54 | 111.39 | 148.39 | 122.68 |
| | Interest coverage ratio (times) | 24,887.69 | 49,924.55 | 70,478.27 | 17,457.48 | 6,617.87 | 16,926.18 |
| Operating ability | Accounts receivable turnover rate (times) | 8.83 | 9.09 | 9.43 | 10.32 | 10.06 | 10.05 |
| | Average collection days (days) | 42 | 41 | 39 | 35 | 37 | 36 |
| | Inventory turnover rate (times) | 2.14 | 2.10 | 2.29 | 1.93 | 1.82 | 2.15 |
| | Payables turnover rate (times) | 3.31 | 4.67 | 4.71 | 5.14 | 4.94 | 4.85 |
| | Average inventory turnover days (days) | 171 | 174 | 159 | 189 | 201 | 170 |
| | Turnover rate for PPE (times) | 13.36 | 12.15 | 12.52 | 13.67 | 16.03 | 21.84 |
| | Total asset turnover rate (times) | 0.97 | 1.04 | 1.11 | 1.16 | 1.15 | 1.33 |
| Profitability | Return on assets (%) | 5.10 | 6.52 | 9.17 | 7.24 | 4.94 | 2.85 |
| | Return on equity (%) | 7.34 | 8.57 | 12.27 | 9.94 | 6.93 | 4.16 |
| | Ratio to paid-in Capital (%) - Operating profit margin (%) | 12.62 | 10.95 | 25.59 | 28.22 | 20.12 | 11.81 |
| | Ratio to paid-in Capital (%) - Net profit before tax margin (%) | 17.93 | 23.70 | 34.11 | 29.68 | 20.16 | 12.35 |
| | Net profit margin (%) | 5.23 | 6.25 | 8.24 | 6.20 | 4.22 | 8.51 |
| | Earnings per share (NT$) | 1.85 | 2.19 | 3.11 | 2.52 | 1.78 | 1.11 |
| Cash flow | Cash flow ratio (%) | - | 49.03 | 39.41 | - | 61.12 | - |
| | Cash flow adequacy ratio (%) | 57.42 | 65.09 | 62.35 | 17.02 | 28.20 | 53.70 |
| | Cash reinvestment ratio (%) | - | 11.56 | 8.95 | - | 15.60 | - |
| Leverage | Operating leverage | 3.96 | 4.08 | 2.58 | 2.58 | 3.30 | 4.21 |
| | Financial leverage | 1.01 | 1.00 | 1.00 | 1.01 | 1.02 | 1.01 |

Analysis of financial ratio differences for the last two years:

1. Quick ratio increased mainly due to the increase in cash and cash equivalent caused by the continued reduction in inventory in this year's estimation of future sales.
2. Interest cover ratio decreased mainly due to the increase in interest expense caused by the increase in short-term loan.
3. Return on assets, return on equity, operating profit/net profit before tax to paid-in capital, net profit margin, and earning per share decreased mainly due to the decrease in the Company's operating profit compared with the previous year caused by the slowdown in global economic growth this year.
4. Cash flow ratio, cash flow adequacy ratio and cash reinvestment ratio increased. Although the revenue grew this year, due to the continued reduction in inventory due to this year's estimat ion of future sales, it resulted in a substantial increase in cash flow from operating activities compared to the previous year.
5. Operating leverage increased mainly due to the significant decrease in the Company's operatin g profit compared to the previous year caused by the slowdown in global economic growth th is year.

2. Financial Analysis of the Company - Adopted International Financial Reporting Standards (IFRS)

| Item | | Year | FY 2015 | FY 2016 | FY 2017 | FY 2018 | FY 2019 |
|---|---|---|---|---|---|---|---|
| Financial structure | Debts to total assets (%) | | 22.09 | 24.09 | 24.38 | 28.83 | 28.79 |
| | Long-term capital to PPE ratio (%) | | 911.59 | 911.23 | 827.63 | 931.97 | 1,088.58 |
| Debt service ability | Current ratio (%) | | 301.95 | 280.63 | 306.55 | 271.99 | 286.57 |
| | Quick ratio (%) | | 98.74 | 119.81 | 146.57 | 73.71 | 114.99 |
| | Interest coverage ratio (times) | | 25,228.90 | 49,765.70 | 69,742.53 | 17,223.36 | 6,565.09 |
| Operatin g ability | Accounts receivable turnover rate (times) | | 8.91 | 9.58 | 10.07 | 10.80 | 10.69 |
| | Average collection days (days) | | 41 | 39 | 36 | 34 | 35 |
| | Inventory turnover rate (times) | | 2.14 | 2.11 | 2.30 | 1.93 | 1.83 |
| | Payables turnover rate (times) | | 3.33 | 4.71 | 4.81 | 5.30 | 5.12 |
| | Average inventory turnover days (days) | | 171 | 173 | 159 | 189 | 200 |
| | Turnover rate for PPE (times) | | 13.36 | 12.19 | 12.60 | 13.71 | 16.08 |
| | Total asset turnover rate (times) | | 0.96 | 1.03 | 1.11 | 1.15 | 1.15 |
| Profitabil ity | Return on assets (%) | | 5.13 | 6.69 | 9.21 | 7.12 | 4.85 |
| | Return on equity (%) | | 7.33 | 8.69 | 12.13 | 9.66 | 6.71 |
| | Ratio to paid-in Capital (%) | Operating profit margin (%) | 16.48 | 14.74 | 28.10 | 29.95 | 20.26 |
| | | Net profit before tax margin (%) | 18.14 | 23.62 | 33.58 | 29.25 | 19.72 |
| | Net profit margin (%) | | 5.32 | 6.46 | 8.31 | 6.15 | 4.16 |
| | Earnings per share (NT$) | | 1.85 | 2.19 | 3.11 | 2.52 | 1.78 |

| Item \ Year | | FY 2015 | FY 2016 | FY 2017 | FY 2018 | FY 2019 |
|---|---|---|---|---|---|---|
| Cash flow | Cash flow ratio (%) | - | 58.30 | 38.24 | - | 66.94 |
| | Cash flow adequacy ratio (%) | 59.21 | 70.20 | 65.11 | 19.60 | 34.46 |
| | Cash reinvestment ratio (%) | - | 13.04 | 7.96 | - | 16.49 |
| Leverage | Operating leverage | 3.00 | 3.32 | 2.45 | 2.52 | 3.26 |
| | Financial leverage | 1.00 | 1.00 | 1.00 | 1.01 | 1.02 |

Analysis of financial ratio differences for the last two financial years:

1. Quick ratio increased mainly due to the increase in cash and cash equivalent caused by the continued reduction in inventory in this year's estimation of future sales.
2. Interest cover ratio decreased mainly due to the increase in interest expense caused by the increase in short-term loan.
3. Return on assets, return on equity, operating profit/net profit before tax to paid-in capital, net profit margin, and earning per share decreased mainly due to the decrease in the Company's operating profit compared with the previous year caused by the slowdown in global economic growth this year.
4. Cash flow ratio, cash flow adequacy ratio and cash reinvestment ratio increased. Although the revenue grew this year, due to the continued reduction in inventory due to this year's estimat ion of future sales, it resulted in a substantial increase in cash flow from operating activities compared to the previous year.
5. Operating leverage increased mainly due to the significant decrease in the Company's operating profit compared to the previous year caused by the slowdown in global economic growth this year.

The formulas for calculating the financial ratios are as follows:

1. Financial structure
   (1) Liability to asset ratio = total liabilities / total assets.
   (2) Long-term capital PPE = (total equities + non-current liabilities) / net value of PP&E.
2. Debt service ability
   (1) Current ratio = current assets / current liabilities
   (2) Quick ratio = (current assets - inventory - prepaid expenditures) / current liabilities.
   (3) Interest coverage ratio = profit before interest and tax / interest expenditures for this year.
3. Operating ability
   (1) Accounts receivable (including accounts receivable and notes receivable resulting from operation) turnover = net revenue / balance of average accounts receivable (including accounts receivable and notes receivable resulting from operation).
   (2) Average collection days = 365 / receivables turnover rate.
   (3) Inventory turnover = cost of goods sold / average inventory value.
   (4) Payable turnover rate (including bills payable resulting from accounts payable and business operations) = cost of goods sold / average accounts payable in various periods (including bills payable resulting from accounts payable and business operations).
   (5) Average sales days = 365 / inventory turnover ratio.
   (6) PPE turnover ratio = net sale / average PPE value.
   (7) Total asset turnover ratio = Net revenue / average total PPE value.

4. Profitability

(1) Return on assets ＝ [net profit after taxes + interest expense (1 – tax rate)] / average total assets.

(2) Equity remuneration rate = net profit (loss) after tax / average total equity value.

(3) Net profit margin = net profit (loss) after tax / net revenue.

(4) Earnings per share (EPS) = (Profit (loss) attributable to the parent company - dividend for preferred shares) / weighted average of issued shares

5. Cash flow

(1) Cash flow ratio = net cash from business activities / current liabilities.

(2) Net cash flow adequacy ratio = net cash flow for business activities for the last 5 years / (capital expenses + additional inventory sum + cash dividend) for the past 5 financial years.

(3) Cash re-investment ratio = (net cash flow from business activities - cash dividend) / (gross amount of PPE + long-term investments + other non-current assets + working capital).

6. Leverage:

(1) Operating leverage＝(net revenue－variable operating cost and expense)／operating income

(2) Financial Leverage = operating profit / (operating profit - interest expense).

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

# Elite Semiconductor Memory Technology Inc.

## Audit Committees' Review Report

The Board of Directors has prepared the Company’s 2019 Business Report, Financial Statements, and proposal for allocation of earnings. The CPA firm of PricewaterhouseCoopers was retained to audit the ESMT’s Financial Statements and have issued an audit report relating to the Finacial Statements. The Business Report, Financial Statements, and earnings allocation proposal have been reviewed and determined to be correct and accurate by the Audit Committee of the Elite Semiconductor Memory Technology Inc. According to the relevant requirements of the Securities and Exchange Act and the Company Law, we hereby submit this report.

To: Elite Semiconductor Memory Technology Inc. 2020 Annual Shareholders' Meeting

Elite Semiconductor Memory Technology Inc.

Convener of the Audit Committee: Shan-Jen, Chow

March 20, 2020

## IV. Financial Statements for the Most Recent Financial Year

(English Translation of a Report Originally Issued in Chinese)

Independent Auditors' Report

(CONSOLIDATED FINANCIAL STATEMENT)

(2020)Finance-Audit-Letter No.19003272

To Elite Semiconductor Memory Technology Inc.,

**Audit Opinions**

We have audited the Consolidated Balance Sheets as of December 31, 2019 and 2018 as well as the Consolidated Income Statement, Consolidated Statements of Changes in Equity, Consolidated Cash Flow Statement, and Notes to Consolidated Financial Statements for the years then ended (including the summary of major accounting policies) for Elite Semiconductor Memory Technology Inc. and its subsidiaries (hereafter "the Group").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2019 and 2018, 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 and the International Financial Reporting Standards recognized by the Financial Supervisory Commission, International Accounting Standards, and the interpretation and interpretation announcements thereto.

**Basis for Opinions**

We conducted our audit in accordance with the Regulations Governing Auditing and Attestation of Individual Financial Statements by Certified Public Accountants and Generally Accepted Auditing Standards (GAAS) of the Republic of China. Our responsibility under the above-mentioned regulations will be further explained in the section titled "The Accountant's Responsibility in Auditing the Consolidated Financial Statements". We are independent of the Group as required by the Code of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled other responsibilities as stipulated by 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 refer to matters that, in our professional judgment, were of most significance in our audit of the Consolidated Financial Statements of the Group for the year ended December 31, 2019. These matters were addressed in the content of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on those matters.

Key audit matters for the Group are stated as follows:

**Impairment of goodwill**

**Description**

The Group merged with Eon Silicon Solution Inc. on June 8, 2016 and generated goodwill of NTD

80,758 thousand. The amount of goodwill impairment loss recognized by the Group in 2019 was NTD 12,057 thousand. For the accounting policy of goodwill impairment, please refer to Note 4(20) - Impairment of Non-Financial Assets attached to the consolidated financial statements. For the accounting estimates and assumptions of the goodwill impairment assessment, please refer to Note 5(2) attached to the consolidated financial statements. For the description of goodwill impairment assessment, please refer to Note 6(11) attached to the consolidated financial statements. The Group uses the future estimated cash flow of the cash-generating unit to which the goodwill belongs, and uses an appropriate discount rate to measure the recoverable amount of the cash-generating unit, as a basis for assessing whether the goodwill is impaired. As the goodwill impairment assessment uses assumptions including discount rates and financial forecasts for the next five years, such matter involves professional judgments that are uncertain. Therefore, we considered the goodwill impairment as a key audit matter this year.

**How the matter was addressed in our audit**

The audit procedures that we performed for the assessment of goodwill impairment include: understanding and evaluating the management 's process for estimating future cash flows; confirming the cash flow information for the next five years listed in the evaluation model is approved by the management; the reasonableness of major assumptions such as growth rate and discount rate, which includes 1. Comparison of historical results, economic and industry forecast reports used for projecting growth rate. 2. Checking the capital cost assumptions cash-generating units for the weighted average capital cost discount rate. 3. Evaluating the sensitivity analysis of the management with different expected growth rates and discount rates to confirm that the management has properly dealt with the possible impact of the estimated uncertainty.

**Allowance for inventory valuation loss**

**Description**

For accounting policies regarding inventory evaluation, please refer to Note 4(13) attached to the consolidated financial statements. For accounting estimates and assumptions of inventory evaluation, please refer to Note 5(2) attached to the consolidated financial statements. For the explanation of inventory accounting items, please refer to Note 6(5) attached to the consolidated financial statements. On December 31, 2019, the balance of inventories and allowance for inventory valuation losses amounted to NTD 5,141,748 thousand and NTD 169,196 thousand, respectively.

The main business items of the Group are research, development, production, manufacturing and sales of integrated circuits. The inventory of the Group is measured by the lower of cost and net realizable value. For the inventory aged over a period of time and individually identified as obsolete, the net realizable value is estimated based on the historical information of the de-inventorization process. As the determination of the net realizable value of the inventory aged over a certain period and obsolete inventory involves manual judgment and has uncertainties in estimation when performing the evaluation, therefore, we considered the allowance for inventory valuation losses as a key audit matter this year.

**How the matter was addressed in our audit**

The audit procedures that we performed for the key audit items listed above include the understanding of the Group operation and nature of the industry, assessing the reasonableness of policies and procedures used to recognize the allowance for inventory impairment loss, including the historical source information on the degree of de-inventorization, the reasonableness of judging aged and obsolete inventory items, examining the appropriateness of relevant information of the inventory aging report used by the Group to confirm the consistency between the report information and its policy, spot-checking inventory material numbers to verify the net realizable value of inventory, and obtaining the management's relevant assessment and supporting documents for individually identified obsolete or damaged inventory items, and then evaluating the reasonableness of the Company's allowance for inventory valuation losses.

**Other Matter - Individual Financial Statements**

We have audited and expressed an unmodified opinion on the Individual Financial Statements of the Group for the years ended December 31, 2019 and 2018.

**Responsibility of the Management and the Governing Body for the Consolidated Financial Statements**

The responsibility of the management is to have the consolidated financial statements presented fairly, in all material respects, in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Firms", International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, 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, the responsibility of management includes assessing the Group's ability to continue as a going concern, disclosing going concern related matters, as well as adopting going concern basis of accounting unless the management intends to liquidate the Group or terminate the business, or has no realistic alternative but to do so.

The governing bodies of the Group (including the Audit Committee) have the responsibility to oversee the procedures for financial reporting.

**Responsibilities of Certified Public Accountants for Auditing 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 and auditor's report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the accounting principles generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error. If fraud or errors are considered materials, 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 GAAS of Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also perform the following works:

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 risks, and obtain evidence that is sufficient and appropriate to provide a basis of 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 controls 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 internal controls of the Group and its subsidiaries.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, determine 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 inappropriate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor’s report. However, future events or conditions may cause the Group and its subsidiaries to cease to continue as a going concern.
5. Evaluate the overall presentation, structure, and content of the consolidated statements, including related notes, whether the consolidated statements represent the underlying transactions and events in a matter that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence on the financial information of business entities within the Group in order to express an opinion on the consolidated financial statements. The independent auditor is responsible for guiding, supervising, and implementing the audit of the Group; also, is responsible for forming an opinion on the audit of the Group.

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

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

From the matters communicated with the governing body, we determined the key audit matters for the Group's consolidated financial statements for the year ended 2019. 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 communications.

Ya Huei Cheng

Danie Lee

Pricewaterhouse Coopers , Taiwan

March 20, 2020

(English Translation of a Report Originally Issued in Chinese)

Elite Semiconductor Memory Technology Inc. and subsidiaries

Consolidated Balance Sheet

As of December 31, 2019 and 2018

Unit: NTD thousand

| | Assets | Note | December 31, 2019 Amount | % | December 31, 2018 Amount | % |
|---|---|---|---|---|---|---|
| | **Current assets** | | | | | |
| 1100 | Cash and cash equivalents | 6(1) | $ 2,757,003 | 26 | $ 1,873,828 | 18 |
| 1110 | Financial assets at fair value through profit or loss - current | 6(2) | 252,593 | 3 | 306,374 | 3 |
| 1136 | Financial assets at amortized cost - current | | 140,906 | 1 | - | - |
| 1150 | Net notes receivable | | 34 | - | - | - |
| 1170 | Net accounts receivable | 6(4) | 1,256,938 | 12 | 1,105,913 | 11 |
| 1200 | Other receivables | | 82,741 | 1 | 68,540 | - |
| 130X | Inventories | 6(5) | 4,972,552 | 48 | 5,767,656 | 56 |
| 1410 | Prepayments | | 27,444 | - | 81,224 | 1 |
| 1470 | Other current assets | 8 | 6,866 | - | 2,920 | - |
| 11XX | **Total current assets** | | 9,497,077 | 91 | 9,206,455 | 89 |
| | **Noncurrent assets** | | | | | |
| 1517 | Financial assets at fair value through other comprehensive income - noncurrent | 6(3) | 50,776 | - | 59,300 | 1 |
| 1550 | Investments accounted for using equity method | 6(6) | 33,210 | - | - | - |
| 1600 | Property, plant, and equipment | 6(7) | 696,328 | 7 | 799,062 | 8 |
| 1755 | Right-of-use assets | 6(8) | 86,367 | 1 | - | - |
| 1760 | Net investment property | 6(9) | 18,671 | - | 19,641 | - |
| 1780 | Intangible assets | 6(10) | 81,593 | 1 | 133,975 | 1 |
| 1840 | Deferred income tax assets | 6(25) | 4,174 | - | 5,174 | - |
| 1900 | Other noncurrent assets | | 12,124 | - | 65,705 | 1 |
| 15XX | **Total noncurrent assets** | | 983,243 | 9 | 1,082,857 | 11 |
| 1XXX | **Total assets** | | $ 10,480,320 | 100 | $ 10,289,312 | 100 |

(Continue on next page)

(English Translation of a Report Originally Issued in Chinese)
Elite Semiconductor Memory Technology Inc. and subsidiaries
Consolidated Balance Sheet
As of December 31, 2019 and 2018

Unit: NTD thousand

| | Liabilities and equity | Note | December 31, 2019 Amount | % | December 31, 2018 Amount | % |
|---|---|---|---|---|---|---|
| | **Current liabilities** | | | | | |
| 2100 | Short-term borrowings | 6(12) | $ 274,000 | 3 | $ 370,000 | 4 |
| 2110 | Short-term notes and bills payable | | - | - | 99,932 | 1 |
| 2130 | Contract liabilities - current | 6(19) | 3,959 | - | 3,710 | - |
| 2150 | Notes payable | | 1,981 | - | 2,745 | - |
| 2170 | Accounts payable | | 2,225,909 | 21 | 1,894,371 | 18 |
| 2200 | Other payables | 6(13) | 462,523 | 5 | 506,235 | 5 |
| 2230 | Current income tax liabilities | | 40,046 | - | 130,233 | 1 |
| 2280 | Lease liabilities - current | | 11,447 | - | - | - |
| 2300 | Other current liabilities | | 6,080 | - | 4,454 | - |
| 21XX | **Total of current liabilities** | | 3,025,945 | 29 | 3,011,680 | 29 |
| | **Noncurrent liabilities** | | | | | |
| 2550 | Liability reserve - noncurrent | | 15,083 | - | 13,791 | - |
| 2570 | Deferred tax liabilities | 6(25) | 4,731 | - | 1,078 | - |
| 2580 | Lease liabilities - noncurrent | | 75,440 | 1 | - | - |
| 2600 | Other noncurrent liabilities | 6(14) | 18,342 | - | 18,325 | 1 |
| 25XX | **Total noncurrent liabilities** | | 113,596 | 1 | 33,194 | 1 |
| 2XXX | **Total liabilities** | | 3,139,541 | 30 | 3,044,874 | 30 |
| | **Equity attributable to owners of the parent company** | | | | | |
| | **Share capital** | 6(16) | | | | |
| 3110 | Common stock | | 2,857,589 | 27 | 2,857,589 | 28 |
| | **Capital surplus** | 6(17) | | | | |
| 3200 | Capital surplus | | 104,305 | 1 | 59,072 | - |
| | **Retained earnings** | 6(18) | | | | |
| 3310 | Legal reserve | | 1,359,235 | 13 | 1,288,584 | 12 |
| 3320 | Special reserve | | - | - | 194,377 | 2 |
| 3350 | Undistributed earnings | | 3,286,176 | 31 | 3,093,047 | 30 |
| | **Other equities** | | | | | |
| 3400 | Other equities | | ( 8,524) | - | - | - |
| 3500 | **Treasury stock** | 6(16) | ( 137,321) | ( 1) | ( 137,321) | ( 1) |
| 31XX | **Total equity attributable to owners of the parent company** | | 7,461,460 | 71 | 7,355,348 | 71 |
| 36XX | **Non-controlling interests** | | ( 120,681) | ( 1) | ( 110,910) | ( 1) |
| 3XXX | **Total equity** | | 7,340,779 | 70 | 7,244,438 | 70 |
| | **Significant contingent liabilities and unrecognized contractual commitments** | IX | | | | |
| | **Significant events after the balance sheet date** | XI | | | | |
| 3X2X | **Total liabilities and equity** | | $ 10,480,320 | 100 | $ 10,289,312 | 100 |

The accompanying notes are an integral part of these consolidated financial statements.

Chairman: Hsing-Hai Chen　　Manager: Ming-Chien Chang　　Accounting Supervisor: Candy Chu

(English Translation of a Report Originally Issued in Chinese)

Elite Semiconductor Memory Technology Inc. and subsidiaries

Consolidated Income Statement

As of December 31, 2019 and 2018

Unit: NTD thousand
(EPS in NT$)

| Code | Items | Note | 2019 Amount | 2019 % | 2018 Amount | 2018 % |
|---|---|---|---|---|---|---|
| 4000 | **Operating income** | 6(19) | $ 11,983,479 | 100 | $ 11,555,124 | 100 |
| 5000 | **Operating costs** | 6(5)(23)(24) | ( 10,181,271) | ( 85) | ( 9,426,197) | ( 82) |
| 5950 | **Net operating gross profit** | | 1,802,208 | 15 | 2,128,927 | 18 |
| | **Operating expenses** | 6(23)(24) | | | | |
| 6100 | Marketing expenses | | ( 234,342) | ( 2) | ( 237,334) | ( 2) |
| 6200 | Administrative expenses | | ( 243,035) | ( 2) | ( 252,510) | ( 2) |
| 6300 | Research and development expenses | | ( 739,882) | ( 6) | ( 828,379) | ( 7) |
| 6450 | Expected credit impairment loss | 12(2) | ( 10,006) | - | ( 4,289) | - |
| 6000 | **Total operating expenses** | | ( 1,227,265) | ( 10) | ( 1,322,512) | ( 11) |
| 6900 | **Operating income** | | 574,943 | 5 | 806,415 | 7 |
| | **Non-operating income and expenses** | | | | | |
| 7010 | Other revenue | 6(20) | 90,166 | 1 | 105,190 | 1 |
| 7020 | Other gains and losses | 6(21) | ( 66,895) | ( 1) | ( 58,458) | ( 1) |
| 7050 | Financial costs | 6(22) | ( 8,840) | - | ( 4,887) | - |
| 7060 | Share of profit (loss) of associates and joint ventures accounted for under equity method | 6(6) | ( 13,194) | - | - | - |
| 7000 | **Total non-operating income and expenses** | | 1,237 | - | 41,845 | - |
| 7900 | **Profit before tax** | | 576,180 | 5 | 848,260 | 7 |
| 7950 | Income tax expenses | 6(25) | ( 70,569) | ( 1) | ( 132,066) | ( 1) |
| 8200 | **Net profit of current period** | | $ 505,611 | 4 | $ 716,194 | 6 |
| | **Other comprehensive income - net** | | | | | |
| | **Items not re-classified to profit or loss** | | | | | |
| 8311 | Remeasurements of the defined benefit plan | 6(14) | $ 636 | - | $ 337 | - |
| 8316 | Unrealized gain(loss) on valuation of equity instruments measured at fair value through other comprehensive income | 6(3) | ( 8,524) | - | - | - |
| 8300 | **Other comprehensive income - net** | | ($ 7,888) | - | $ 337 | - |
| 8500 | **Total comprehensive income of current period** | | $ 497,723 | 4 | $ 716,531 | 6 |
| | **Net profit (loss) attributable to:** | | | | | |
| 8610 | Owners of the parent company | | $ 497,405 | 4 | $ 706,508 | 6 |
| 8620 | Non-controlling interests | | $ 8,206 | - | $ 9,686 | - |
| | **Total comprehensive income attributable to:** | | | | | |
| 8710 | Owners of the parent company | | $ 489,517 | 4 | $ 706,845 | 6 |
| 8720 | Non-controlling interests | | $ 8,206 | - | $ 9,686 | - |
| | **Earnings per share** | 6(26) | | | | |
| 9750 | **Basic earnings per share** | | $ 1.78 | | $ 2.52 | |
| 9850 | **Diluted earnings per share** | | $ 1.77 | | $ 2.51 | |

The accompanying notes are an integral part of these consolidated financial statements.

Chairman: Hsing-Hai Chen　　Manager: Ming-Chien Chang　　Accounting Supervisor: Candy Chu

(English Translation of a Report Originally Issued in Chinese)

Elite Semiconductor Memory Technology Inc. and subsidiaries

Consolidated Statement of Changes in Equity

As of December 31, 2019 and 2018

| | | Equity attributable to owners of the parent company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Retained earnings | | | Other equities | | | | | |
| | Note | Common stock | Capital surplus | Legal reserve | Special reserve | Undistributed earnings | Unrealized valuation gains or losses on financial assets at fair value through other comprehensive income | Unrealized gains or losses on available-for-sale financial assets Unrealized assets Profit or loss | Treasury stock | Total | Non-controlling interests | Total equity |
| 2018 | | | | | | | | | | | | |
| Balance as of January 1, 2018 | | $ 2,857,589 | $ 116,645 | $ 1,202,067 | $ | $ 3,432,991 | $ | ( $ 194,377 ) | ( $ 137,321 ) | $ 7,277,594 | ( $ 107,453 ) | $ 7,170,141 |
| Effect of retrospective application and retrospective restatement | | - | - | - | - | ( 194,377 ) | - | 194,377 | - | - | - | - |
| Adjusted balance as of January 1, 2018 | | 2,857,589 | 116,645 | 1,202,067 | - | 3,238,614 | - | - | ( 137,321 ) | 7,277,594 | ( 107,453 ) | 7,170,141 |
| Net profit of current period | | - | - | - | - | 706,508 | - | - | - | 706,508 | 9,686 | 716,194 |
| Other comprehensive income (loss) of current period | | - | - | - | - | 337 | - | - | - | 337 | - | 337 |
| Total comprehensive income of current period | | - | - | - | - | 706,845 | - | - | - | 706,845 | 9,686 | 716,531 |
| The distribution of cash dividend from capital surplus | 6(17)(18) | - | ( 68,929 ) | - | - | - | - | - | - | ( 68,929 ) | - | ( 68,929 ) |
| Surplus appropriation and allocation of 2017 | 6(18) | | | | | | | | | | | |
| Special reserve | | - | - | - | 194,377 | ( 194,377 ) | - | - | - | - | - | - |
| Legal reserve | | - | - | 86,517 | - | ( 86,517 ) | - | - | - | - | - | - |
| Cash dividends from capital surplus | | - | - | - | - | ( 571,518 ) | - | - | - | ( 571,518 ) | - | ( 571,518 ) |
| Recognition of effects from all equity changes in subsidiaries - cash dividends distribution of subsidiaries | 6(17) | - | 1,146 | - | - | - | - | - | - | 1,146 | ( 9,922 ) | ( 8,776 ) |
| Recognition of effects from all equity changes in subsidiaries - effects of equity shares obtained by subsidiaries | 6(17) | - | ( 69 ) | - | - | - | - | - | - | ( 69 ) | ( 9,338 ) | ( 9,407 ) |
| The changes in the net value of shares issued by subsidiaries not recognized in proportion to the shareholding | 6(17)(27) | - | ( 6,117 ) | - | - | - | - | - | - | ( 6,117 ) | 6,117 | - |
| Adjustment to surplus reserve from dividends paid to subsidiary | 6(17) | - | 12,608 | - | - | - | - | - | - | 12,608 | - | 12,608 |
| Dividends that are not collected before the designated date shall be transferred to capital surplus. | 6(17) | - | 3,788 | - | - | - | - | - | - | 3,788 | - | 3,788 |
| Balance as of December 31, 2018 | | $ 2,857,589 | $ 59,072 | $ 1,288,584 | $ 194,377 | $ 3,093,047 | $ | $ | ( $ 137,321 ) | $ 7,355,348 | ( $ 110,910 ) | $ 7,244,438 |
| 2019 | | | | | | | | | | | | |
| Balance as of January 1, 2019 | | $ 2,857,589 | $ 59,072 | $ 1,288,584 | $ 194,377 | $ 3,093,047 | $ | $ | ( $ 137,321 ) | $ 7,355,348 | ( $ 110,910 ) | $ 7,244,438 |
| Net profit of current period | | - | - | - | - | 497,405 | - | - | - | 497,405 | 8,206 | 505,611 |
| Other comprehensive income (loss) | | - | - | - | - | 636 | ( 8,524 ) | - | - | ( 7,888 ) | - | ( 7,888 ) |
| Total comprehensive income of current period | | - | - | - | - | 498,041 | ( 8,524 ) | - | - | 489,517 | 8,206 | 497,723 |
| Surplus appropriation and allocation of 2018 | 6(18) | | | | | | | | | | | |
| Legal reserve | | - | - | 70,651 | - | ( 70,651 ) | - | - | - | - | - | - |
| Cash dividends from capital surplus | | - | - | - | - | ( 428,638 ) | - | - | - | ( 428,638 ) | - | ( 428,638 ) |
| Special reserve reversal | | - | - | - | ( 194,377 ) | 194,377 | - | - | - | - | - | - |
| Recognition of effects from all equity changes in subsidiaries - cash dividends distribution of subsidiaries | 6(17) | - | 1,146 | - | - | - | - | - | - | 1,146 | ( 15,444 ) | ( 14,298 ) |
| Disposal of subsidiaries | 6(17) | - | 35,475 | - | - | - | - | - | - | 35,475 | ( 2,533 ) | 32,942 |
| Adjustment to surplus reserve from dividends paid to subsidiary | 6(17) | - | 8,438 | - | - | - | - | - | - | 8,438 | - | 8,438 |
| Changes in equity of affiliated companies and joint ventures accounted for using equity method | 6(17) | - | 180 | - | - | - | - | - | - | 180 | - | 180 |
| Dividends that are not collected before the designated date shall be transferred to capital surplus. | 6(17) | - | 39 | - | - | - | - | - | - | 39 | - | 39 |
| Adjustment for dividends that are not collected before the designated date | 6(17) | - | ( 45 ) | - | - | - | - | - | - | ( 45 ) | - | ( 45 ) |
| Balance as of December 31, 2019 | | $ 2,857,589 | $ 104,305 | $ 1,359,235 | $ | $ 3,286,176 | ( $ 8,524 ) | $ | ( $ 137,321 ) | $ 7,461,460 | ( $ 120,681 ) | $ 7,340,779 |

The accompanying notes are an integral part of these consolidated financial statements.

Chairman: Hsing-Hai Chen Manager: Ming-Chien Chang Accounting Supervisor: Candy Chu

(English Translation of a Report Originally Issued in Chinese)

Elite Semiconductor Memory Technology Inc. and subsidiaries

Consolidated Statement of Cash Flows

As of December 31, 2019 and 2018

Unit: NTD thousand

| | Note | January 1 to December 31, 2019 | January 1 to December 31, 2018 |
|---|---|---|---|
| Cash flow from operating activities | | | |
| Profit before tax for the period | | $ 576,180 | $ 848,260 |
| Adjustments | | | |
| Profits and loss | | | |
| Depreciation expenses | 6(7)(8)(9)(23) | 398,674 | 398,733 |
| Amortization expenses | 6(10)(23) | 85,108 | 84,132 |
| Expected credit impairment loss | 12(2) | 10,006 | 4,289 |
| Net losses on financial assets at fair value through profit and loss | 6(2)(21) | 8,727 | 87,868 |
| Interest expenses | 6(22) | 8,840 | 4,887 |
| Interest income | 6(20) | ( 49,666 ) | ( 53,476 ) |
| Share of profit (loss) of associates and joint ventures accounted for under equity method | 6(6) | 13,194 | - |
| Dividend income | 6(20) | ( 26,570 ) | ( 30,622 ) |
| Impairment losses | | 12,057 | 25,047 |
| Changes in operating assets and liabilities: | | | |
| Net changes in operating assets | | | |
| Financial assets at fair value through profit and loss | | ( 18,850 ) | 62,474 |
| Notes receivable | | ( 34 ) | 315 |
| Accounts receivable | | ( 161,164 ) | 18,212 |
| Other receivables | | ( 15,256 ) | ( 13,461 ) |
| Inventories | | 795,104 | ( 2,130,729 ) |
| Prepayments | | 52,384 | 12,355 |
| Other current assets | | ( 3,946 ) | 665 |
| Other noncurrent assets | | - | 1 |
| Net changes in liabilities relating to operating activities | | | |
| Notes payable | | ( 764 ) | 2,448 |
| Accounts payable | | 331,538 | 120,858 |
| Contract liabilities | | 388 | 3,710 |
| Other payables | | ( 54,781 ) | 35,598 |
| Other current liabilities | | 1,742 | ( 10,240 ) |
| Other noncurrent liabilities | | 384 | 385 |
| Cash inflow (outflow) generated from operating activities | | 1,963,295 | ( 528,291 ) |
| Interest received | | 50,064 | 51,839 |
| Interest paid | | ( 7,837 ) | ( 3,359 ) |
| Income tax paid | | ( 156,102 ) | ( 117,098 ) |
| Cash inflow (outflow) from operating activities | | 1,849,420 | ( 596,909 ) |

(Continue on next page)

(English Translation of a Report Originally Issued in Chinese)

Elite Semiconductor Memory Technology Inc. and subsidiaries

Consolidated Statement of Cash Flows

As of December 31, 2019 and 2018

Unit: NTD thousand

| | | | |
|---|---|---|---|
| Cash flow from investing activities | | | |
| Proceeds from repayment of financial assets at amortized cost | | ($ 140,906 ) | $ 322,904 |
| Financial assets at fair value through other comprehensive income | | - | ( 59,300 ) |
| Disposal of financial assets at fair value through profit and loss | | 63,905 | - |
| Acquisition of investment under equity method | | ( 2,387 ) | - |
| Acquisition of property, plant and equipment | 6(28) | ( 268,041 ) | ( 369,304 ) |
| Decrease (increase) in equipment prepayment | | 52,996 | ( 56,786 ) |
| Acquisition of intangible assets | 6(10) | ( 44,783 ) | ( 89,085 ) |
| Cash outflows from disposal of subsidiaries | | ( 11,607 ) | - |
| Decrease (increase) in guarantee deposits paid | | 185 | ( 1,439 ) |
| Dividends received | | 26,570 | 30,622 |
| Net cash outflow from investing activities | | ( 324,068 ) | ( 222,388 ) |
| Cash flow from financing activities | | | |
| Increase (decrease) in short-term notes and bills payable | | ( 99,417 ) | 99,932 |
| Increase (decrease) in short-term loans | | ( 96,000 ) | 370,000 |
| Repayment of the principal amount of lease liabilities | 6(28) | ( 12,525 ) | - |
| Increase in deposits received | | 269 | 99 |
| Cash dividend paid | 6(18) | ( 428,638 ) | ( 640,447 ) |
| Cash dividends distributed by subsidiaries to non-controlling interest | | ( 14,298 ) | ( 8,776 ) |
| Cash dividends received by subsidiaries from the parent company | | 8,438 | 12,608 |
| Non-controlling equity obtained by subsidiaries | | - | ( 9,407 ) |
| Dividends that are not collected before the designated date | | 39 | 3,788 |
| Payment of dividends that are not collected before the designated date | | ( 45 ) | - |
| Net cash outflows from financing activities | | ( 642,177 ) | ( 172,203 ) |
| Increase (decrease) in cash and cash equivalents | | 883,175 | ( 991,500 ) |
| Beginning balance of cash and cash equivalents | 6(1) | 1,873,828 | 2,865,328 |
| Ending balance of cash and cash equivalents | 6(1) | $ 2,757,003 | $ 1,873,828 |

The accompanying notes are an integral part of these consolidated financial statements.

Chairman: Hsing-Hai Chen Manager: Ming-Chien Chang Accounting Supervisor: Candy Chu

(English Translation of a Report Originally Issued in Chinese)

Elite Semiconductor Memory Technology Inc. and its Subsidiaries

Notes to the Consolidated Financial Statements

For Years 2019 and 2018

Unit: NTD thousand

(Unless otherwise indicated)

I. Company History

Elite Semiconductor Memory Technology Inc. (hereinafter referred to as “the Company”) was founded in May 1998 and started operation in December of the same year. The core business of the Company and its subsidiaries (hereinafter referred to as “the Group”) include research, development, production, manufacture, and sales of dynamic and static random access memory, flash memory, analog integrated circuit, analog and digital mixed integrated circuit. The Group also provides technical services related to product design and R&D.

The Company merged with Ji Xin Technology Co., Ltd. On December 5, 2005, and merged with Eon Silicon Solution Inc. on June 8, 2016, and the Company is the surviving company.

II. Approval Date and Procedures of the Consolidated Financial Statements

The consolidated financial statements were approved and issued on March 20, 220, by the Board of Directors.

III. Application of New and Revised Standards, Amendments and Interpretations

(I) Effect of the adoption of new issuance of or amendments to International Financial Reporting Standards (“IFRS”) as endorsed by the Financial Supervisory Commission (“FSC”).

New standards, interpretations and amendments endorsed by the FSC effective from 2019 are as follows:

| Application of New/Revised/Amended Standards, Amendments and Interpretations | The Effective Date Announced by the International Accounting Standards Board |
|---|---|
| Amendments to IFRS 9 "Prepayment Features with Negative Compensation” | Jan. 1, 2019 |
| IFRS 16 “Leases” | Jan. 1, 2019 |
| Amendments to IAS 19 "Plan Amendments, Curtailment or Settlement” | Jan. 1, 2019 |
| Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures” | Jan. 1, 2019 |
| IFRIC 23 "Uncertainty over Income Tax Treatments” | Jan. 1, 2019 |
| Annual Improvements to IFRS 2015-2017 | Jan. 1, 2019 |

Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment:

IFRS 16 “Leases”

1. IFRS 16 "Leases" supersedes IAS 17 "Leases" and its relevant IFRIC interpretations and SIC interpretations. The standard requires lessees to recognize a right-of-use asset and a lease liability (except for those leases with terms of 12

months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.

2. When applying the 2019 version of IFRSs as endorsed by the FSC, the Group elects to adopt IFRS 16 without restating the comparative information ("modified retrospective approach" hereinafter) and made adjustments to lessee lease contracts by increasing the right-of-use assets by NT$105,090 and lease liabilities by NT$105,090.
3. Upon initial adoption of IFRS 16, the Group adopts the following practical expedients:
   (1) Contracts that have previously been identified as leases under IAS 17 and IFRIC 4 are not reassessed as to whether they are (or contain) leases but are treated by applying related IFRS 16 requirements.
   (2) Applying a single discount rate to a portfolio of leases with reasonably similar characteristics.
   (3) The use of hindsight in determining the lease term where the contract contains options to extend to terminate the lease.
4. The Group applied the Group's incremental borrowing rate to calculate the present value of lease liabilities. The interest rate ranged between 1.50% and 1.52%.
5. The Group discloses the amounts of its operating lease commitments pursuant to IAS 17. Below is the reconciliation of the present value after discount using the incremental borrowing rate upon the initial application date and the lease liability recognized on January 1, 2019.

| | |
|---|---|
| Operating lease commitments applying IFRS 17 "Disclosures" as at December 31, 2018 | $ 60,825 |
| Add: Adjustment for reasonable evaluation of lease renewal right | 56,705 |
| Total value of lease contracts for which the recognition of a lease liability is required pursuant to IFRS 16 as at January 1, 2019 | $ 117,530 |
| The Group's incremental borrowing rate as at the initial application date | 1.50%～1.52% |
| Lease liability recognized pursuant to IFRS 16 as at January 1, 2019 | $ 105,090 |

(II) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Company

New standards, interpretations and amendments endorsed by the FSC effective from 2020 are as follows:

| Application of New/Revised/Amended Standards, Amendments and Interpretations | The Effective Date Announced by the International Accounting Standards Board |
|---|---|
| Amendments to IAS 1 and IAS 8 "Disclosure Initiative - Definition of Materiality” | Jan. 1, 2020 |
| Amendments to IFRS 3 "Definition of a Business” | Jan. 1, 2020 |
| Amendments to IFSR 9, IAS 39, and IFRS 7 "Changes in Interest Rate Indicators” | Jan. 1, 2020 |

The above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment.

(III) Effect of IFRSs issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs as endorsed by the FSC are as follows:

| Application of New/Revised/Amended Standards, Amendments and Interpretations | The Effective Date Announced by the International Accounting Standards Board |
|---|---|
| Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture” | To be determined by International Accounting Standards Board |
| IFRS 17 "Insurance Contracts” | Jan. 1, 2021 |
| Amendments to IAS 1 "Classification of Liabilities as Current or Non-current” | Jan. 1, 2022 |

The above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment.

IV. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(I) Compliance Statement

These consolidated financial statements are prepared by the Group in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRS, IAS, IFRIC, and SIC Interpretations endorsed by the FSC.

(II) Preparation Basis

1. Except for the following significant items, these consolidated financial statements have been prepared under the historical cost convention:
   (1) Financial assets and financial liabilities (including derivatives instruments) at fair value through profit or loss.
   (2) Financial assets measured at fair value through other comprehensive income.
   (3) Defined benefit liabilities recognized based on the net amount of pension

fund assets less present value of defined benefit obligation.

2. The preparation of financial statements requires the use of certain significant accounting estimates. It also requires the management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(III) Consolidation Basis

1. Principles for preparation of consolidated financial statements

(1) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries refer to entities controlled by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.

(2) Inter-company transactions, balances and unrealized gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

(3) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

(4) Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity.

2. Subsidiaries included in the consolidated financial statements:

| | | | Percentage of shareholdings | | |
|---|---|---|---|---|---|
| Investor company | Name of subsidiaries | Business activities | December 31, 2019 | December 31, 2018 | Description |
| Elite Semiconductor Memory Technology Inc. | Elite Memory Technology Inc. | R&D, production, sales and relevant consulting service of integrated circuit | 100 | 100 | |
| Elite Semiconductor Memory Technology Inc. | CML Inc. | General investment | - | 100 | Note 7 |
| Elite Semiconductor Memory Technology Inc. | Chang Feng Investment Ltd. | General investment | 100 | 100 | |
| Elite Semiconductor Memory | Jie Yong | General investment | 41.86 | 41.86 | Note 1 |

| Investor company | Name of subsidiaries | Business activities | Percentage of shareholdings December 31, 2019 | December 31, 2018 | Description |
|---|---|---|---|---|---|
| Technology Inc. | Investment Ltd. | | | | |
| Elite Semiconductor Memory Technology Inc. | Elite Investment Services Ltd. | General investment | 100 | 100 | |
| Elite Semiconductor Memory Technology Inc. | Elite Semiconductor (B.V.I.) Ltd. | General investment | 100 | 50 | Note 3 |
| Elite Semiconductor Memory Technology Inc. | Eon Silicon Solution (Samoa) Inc. | Investigation and research of market condition and industrial technology | - | 100 | Note 4 |
| Elite Semiconductor Memory Technology Inc. | Eon Silicon Solutions, Inc. USA | Design, development and testing of products | 100 | 100 | |
| Chang Feng Investment Ltd. | 3R Semiconductor Technology Inc. | Product design, wholesale and retail of electronic materials, manufacturing of electronic components, information software services and international trade | 100 | 100 | |
| Chang Feng Investment Ltd. | Elite Silicon Technology Inc. | Product design, wholesale and retail of electronic materials, manufacturing of electronic components, information software services and international trade | 79.37 | 79.37 | |
| Chang Feng Investment Ltd. | Canyon Semiconductor Inc. | International trade, electronic component manufacturing, product design, and information software services | - | 77.95 | Note 2 |
| Chang Feng Investment Ltd. | Elite Innovation Japan Ltd. | Product design, wholesale and retail of electronic materials, manufacturing of electronic components, information software services and international trade | 100 | - | Note 5 |
| Chang Feng Investment Ltd. | Elite Semiconductor Memory Technology (Shenzhen) Inc. | Technical consultation and service, after-sales service | 100 | - | Note 4 |
| Chang Feng Investment Ltd. | Elite Semiconductor Microelectronics (Shanghai) Technology Inc. | Product design, wholesale and retail of electronic materials, information software services and international trade | - | - | Note 8 |
| CML Inc. | Elite Innovation (B.V.I.) Ltd. | General investment | - | 100 | Note 6 |
| Elite Innovation (B.V.I.) Ltd. | Elite Innovation Japan Ltd. | Product design, wholesale and retail of electronic materials, | - | 100 | Note 5 |

| Investor company | Name of subsidiaries | Business activities | Percentage of shareholdings December 31, 2019 | December 31, 2018 | Description |
|---|---|---|---|---|---|
| | | manufacturing of electronic components, information software services and international trade | | | |
| Elite Investment Services Ltd. | Elite Semiconductor (B.V.I.) Ltd. | General Investment | - | 50 | Note 3 |
| Eon Silicon Solution (Samoa) Inc. | Elite Semiconductor Memory Technology (Shenzhen) Inc. | Technical consultation and service, after-sales service | - | 100 | Note 4 |

Note 1. The Company holds the majority voting rights of Jie Yong Investment Ltd. As their main management is the same, and the Company has substantial control over Jie Yong after evaluation. Therefore, Jie Yong is included as the subsidiary of the Company's consolidated financial report.

Note 2. Since Chang Feng Investment Ltd. did not participate in Canyon Semiconductor's capital increase by issuance of shares by cash on March 4, 2019, the shareholding ratio of Chang Feng Investment decreased from 77.95% to 38.21%. In addition, Chang Feng Investment Ltd. purchased shares of Canyon Semiconductor in December 2019, increasing its shareholding percentage from 38.21% to 40.93%. After evaluation, Chang Feng Investment has no control in Canyon Semiconductor, so Canyon Semiconductor is removed from the consolidated financial statements.

Note 3. Elite Investment Services Ltd. sold its 50% equity in Elite Semiconductor (B.V.I.) Ltd. to Elite Semiconductor Memory Technology Inc. on June 27, 2019.

Note 4. Eon Silicon Solution (Samoa) Inc. completed the dissolution and liquidation on September 2, 2019, and sold its 100% equity in Elite Semiconductor Memory Technology (Shenzhen) Inc. to Chang Feng Investment Ltd.

Note 5. Elite Innovation (B.V.I) Ltd. sold its 100% equity in Elite Innovation Japan Ltd. to Chang Feng Investment Ltd. on September 17, 2019.

Note 6. Elite Innovation (B.V.I) Ltd. completed the liquidation procedures in September 2019.

Note 7. CML Inc. completed the liquidation procedures in December 2019.

Note 8. Elite Semiconductor Microelectronics (Shanghai) Technology Inc. was incorporated on November 27, 2019. It has not applied for investment to the Investment Commission of the Ministry of Economic Affairs, and it has not yet started operation since December 31, 2019.

3. Subsidiaries not included in the consolidated financial reports: None.
4. Adjustment for subsidiaries with different balance sheet date: None.
5. Material restrictions: None.
6. Subsidiaries with material non-controlling interest to the Group: None.

(IV) Foreign Currency Translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (that is, the functional currency). The consolidated financial statements are presented in New Taiwan Dollars, which is the Company's functional and the Group's presentation currency.

Foreign currency transactions and balances

1. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss in the period in which they arise.

2. Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognized in profit or loss in the period.
3. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in profit or loss as part of the fair value gain or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
4. All exchange gains and losses are presented as "other gains and losses" on the statements of comprehensive income

(V) <u>Classification of Current and Non-Current Asset and Liability Items</u>

1. Assets that meet one of the following criteria are classified as current assets:
   (1) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle.
   (2) Assets arising mainly from trading activities.
   (3) Assets that are expected to be realized within twelve months from the balance sheet date.
   (4) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

   All other assets that do not meet any of the above criteria are classified as non-current assets.
2. Liabilities that meet one of the following criteria are classified as current liabilities:
   (1) Liabilities that are expected to be paid off within the normal operating cycle.
   (2) Assets arising mainly from trading activities.
   (3) Liabilities that are to be paid off within twelve months from the balance sheet date.
   (4) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its

classification.

All other liabilities that do not meet any of the above criteria are classified as non-current liabilities.

(VI) Cash Equivalents

Cash equivalents refer to short-term and highly liquid investments that are readily convertible to known amount of cash and subject to an insignificant risk of changes in value. Time deposits can be classified as cash equivalents if they meet the criteria mentioned above and are held for short-term cash commitments in operational purpose.

(VII) Financial assets at fair value through profit and loss

1. Financial assets at fair value through profit or loss are financial assets that are not measured at amortized cost or fair value through other comprehensive income.
2. Based on a regular purchase or sale way, financial assets at fair value through profit or loss are recognized using trade date accounting.
3. At initial recognition, the Group measures the financial assets at fair value and recognizes the transaction costs in profit or loss. The Group subsequently measures the financial assets at fair value, and recognizes the gain or loss in profit or loss.
4. The Group recognizes the dividend income when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

(VIII) Financial Assets at Fair Value through Other Comprehensive Income

1. Refers to the irrevocable selection made at initial recognition that allows the Group to present fair value changes of equity investment not held for trading in other comprehensive income; or debt investment that meets all the criteria simultaneously:
   (1) Financial assets held within a business model of which the holding objective is to collect the contractual cash flows and to sell.
   (2) The cash flows on specific dates that are generated from the contractual terms of the financial assets are solely payments of the principle and interest on the principle amount outstanding.
2. The Group's financial assets measured at fair value through other comprehensive profit or loss in accordance with the trading conventions are accounted for on the trade date.
3. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. The Group subsequently measures the financial assets at fair value.

   The changes in fair value of equity investments that were recognized in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the derecognition of the investment. Dividends are recognized as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

(IX) Financial Assets Measured at Cost After Amortization

1. Financial assets at amortized cost are those that meet all of the following criteria:
   (1) The objective of the Company's business model is achieved by collecting contractual cash flows; and
   (2) The cash flows on specific dates that are generated from the contractual terms of the financial assets are solely payments of the principle and interest on the principle amount outstanding.
2. The Group uses the trade day accounting for financial assets measured at amortized cost and complied with trade practices.
3. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. In subsequent periods, interest income is recognized using the effective interest method and impairment loss is accounted for. Upon derecognition, the gain or loss is recognized in profit or loss.
4. The Group holds time deposits that do not meet the definition of cash equivalents. Due to their short maturity periods, the impact of discounting is not significant. Thus, they are measured by the investment amount.

(X) <u>Accounts Receivable and Notes</u>

1. Accounts and notes receivable entitle the Group a legal right to receive consideration in exchange for transferred goods or rendered services.
2. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(XI) <u>Impairments of Financial Assets</u>

The Group measures the loss allowance for financial assets and accounts receivable containing significant financial components measured at amortized cost after taking into account all reasonable and proving information (including foreseeing information) at each balance sheet date; where the credit risk has not significantly increased since initial recognition, the loss allowance is measured at the 12-month expected credit losses; where the credit risk has increased significantly since initial recognition, the loss allowance is measured at full lifetime expected credit losses; and where they are accounts receivables or contract assets that do not comprise any significant financing components, the loss allowance is measured at full lifetime expected credit losses.

(XII) <u>The Derecognition of Financial Assets</u>

The Group derecognizes a financial asset when the contractual rights to receive cash flows from the financial asset expire.

(XIII) Inventories

Inventories are measured at the lower of cost and net realizable value. Cost is determined using the weighted-average cost method. The cost of finished goods and goods in process comprises raw materials, direct labor, other direct costs and related production overheads. However, loan costs are excluded. The item by item approach is used in applying the lower of cost and net realizable value. Net realizable value is the balance obtained after the estimated selling price in the ordinary course of business minuses the estimated cost of completion and applicable variable selling expenses.

(XIV) Investments Accounted for under the Equity Method/Associates

1. Associates are all entities over which the Group has significant influence but does not control. In general, it is presumed that the investor has significant influence if an investor directly or indirectly holds 20 percent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognized at cost.
2. The Group's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred statutory/constructive obligations or made payments on behalf of the associate.
3. When an associate’s equity changes are not recognized in profit or loss or other comprehensive income of the associate, and such changes do not affect the Company’s ownership percentage of the associate, the Group recognizes the change in ownership interests in the associate in "capital surplus" in proportion to its ownership.
4. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
5. Where an associate issues new shares and the Group does not subscribe or acquire new shares proportionately, which results in a change in the Group's ownership percentage of the associate but maintains significant influence on the associate, the "capital surplus" and "investments accounted for under the equity method" shall be adjusted for the increase or decrease of its share of equity interest. If the above condition causes a decrease in the Group's

ownership percentage of the associate, in addition to the above adjustment, the amounts previously recognized in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately on the same basis as would be required if the relevant assets or liabilities were disposed of.

6. Upon loss of significant influence over an associate, the Group shall remeasure the remaining investment retained in the former associate at its fair value. Any difference between the fair value and the carrying amount is recognized in profit or loss for the period.
7. When the Group disposes its investment in an associate and loses significant influence over this associate, the amounts previously recognized in other comprehensive income in relation to the associate are handled on the same basis as would be required if the relevant assets or liabilities were disposed of. That is, the profits or losses recognizes in other comprehensive income are reclassified to profit or loss upon disposal of such assets or liabilities. In circumstances where the Group loses significant influence over this associate, such assets or liabilities are reclassified to profit or loss If it retains significant influence over this associate, the amounts previously recognized in other comprehensive income in relation to the associate are reclassified under profit or loss proportionately in accordance with the aforementioned approach.

(XV) Property, Plant, and Equipment

1. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalized.
2. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
3. Except for the land not being depreciated, other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. 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 must be depreciated separately.
4. The Group reviews each asset's residual values, useful lives and depreciation methods at the end of each financial year. If expectations for the assets' residual values and useful lives differ from previous estimates or the consumption patterns of the assets' future economic benefits embodied in the assets have changed significantly, any change is seen as a change in estimate under IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" from the date of the change.

The estimated useful lives of property, plant and equipment are as follows:

| | |
|---|---|
| Houses and buildings | 3 to 20 years |
| Machinery equipment | 3 to 8 years |
| Laboratory equipment | 3 to 8 years |
| Others | 3 to 10 years |

(XVI) Lease Transaction in the Capacity of a Lessee - Right-of-Use Assets/Lease Liabilities

Applicable for the annual periods beginning on or after January 1, 2019

1. A right-of-use asset and a lease liability are recognized for a leased asset on the date when it becomes readily available for the Group's use. When a lease contract is a short-term lease or when it is a lease of which the underlying asset is of low value, lease payments are recognized as an expense on a straight-line basis over the lease term.
2. The Group recognizes the present value of unpaid lease liabilities discounted at the Group's incremental borrowing interest rate starting from the lease starting date. Lease payments include fixed payments, excluding any lease incentives. Subsequently, lease liabilities are measured at the amortized cost using the effective interest rate method, and interest expense is allocated over the lease term.

   Starting from the lease date, the Group assesses whether it can reasonably determine its option to extend the lease or purchase the underlying asset, or not to terminate the lease. The Group considers all relevant facts and circumstances that will generate economic incentives to exercise or not exercise the options. Such circumstances include all expected changes in facts and situations from the start of the lease to the day when the option is exercised. Main factors to consider include contractual terms and conditions within the period of options and the importance of the underlying asset to the lessee's operations, etc. The lease term will be reassessed if a significant change or a major change in circumstances occurs within the Company's control range.

   When a change in the lease term or lease payments occurs due to reasons other than lease modifications, lease liabilities are reassessed and the remeasurements are adjusted to the right-of-use assets.
3. Right-of-use assets are recognized at cost on the lease starting date. The cost refers to the initial measurement of the lease liabilities. A right-of-use asset is subsequently measured using the cost model and depreciated from the commencement date to the earlier of the end of the useful life of the right-of-use asset and the end of the lease term. When a lease liability is reassessed, the right-of-use asset is adjusted for any remeasurements of the lease liability.

(XVII) Operating Lease (The Lessee)

Applicable for the annual periods beginning on or after January 1, 2018

Income made under an operating lease (net of any incentives received from the lessor) is recognized in profit or loss on a straight-line basis over the lease term.

(XVIII) Investment Property

An investment property is stated initially at its cost and measured subsequently using the cost model. Investment property is depreciated on a straight-line basis over its estimated useful life of 20 years.

(XIX) Intangible Assets

1. Patent, specialized technology and customer relations

   The patent, specialized technology, and customer relations acquired from a M&A are recognized at fair value on the acquisition date and are depreciated on a straight-line basis over its estimated useful life of 20 years.

2. Goodwill

   Goodwill arises in a business combination that applies the acquisition method.

3. Other intangible assets, which mainly refer to computer software, are recognized at cost on the acquisition date and are depreciated on a straight-line basis over its estimated useful life of 1~3 years.

(XX) Impairment of Non-Financial Assets

1. The Group assesses on each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher amount between an asset's fair value deducting costs to sell and the value in use. When the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss shall be reversed. The increased carrying amount due to reversal shall not exceed what the depreciated or amortized historical cost would have been if the impairment had not been recognized.

2. The recoverable amount of goodwill shall be evaluated periodically. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment loss of goodwill previously recognized in profit or loss shall not be reversed in the following years.

3. The Company's goodwill is the purpose of impairment testing and will be allocated to each of the cash-generating units. According to the operational unit's recognition, the Company's goodwill is allocated to the cash-generating units or groups that are expected to benefit from the business combination that generates goodwill.

(XXI) Borrowings

Borrowings refer to short-term loans from banks. Borrowings are recognized initially at fair value, net of transaction costs, and are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

(XXII) Accounts Payable and Notes

Accounts payable and notes are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. However, short-term accounts payable without bearing interest are subsequently measured at the initial invoice amount as the effect of discounting is immaterial.

(XXIII) De-recognition of Financial Liabilities

The Group derecognizes a financial liability when the obligation under the contract is performed, canceled, or expires.

(XXIV) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation on the balance sheet date, which is discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. When discounting is used, the increase in the provision due to passage of time is recognized as interest expense. Provisions are not recognized for future operating losses.

(XXV) Employee Benefits

1. Short-term employee benefits

   Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of services rendered by employees in a period and shall be recognized as an expense in that period when the employees render services.

2. Pension

   (1) Defined contribution pension plan

   For defined contribution plans, the contributions are recognized as pension expense when they are due on an accrual basis. Prepaid contributions are recognized as an asset to the extent of a cash refund or a reduction in the future payments.

   (2) Defined benefit plans

   A. Net obligation under a defined benefit plan refers to the discounted present value generated from the employees' current for past services;

the present value under the defined benefit plan on the balance sheet date shall minus the fair value of plan assets. The net obligation under the defined benefit plan is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using government bonds yield on the balance sheet date of currency and term consistent with that of the defined benefit plan and the balance sheet date.

B. Remeasurements arising under defined benefit plans are recognized in other comprehensive income for the period and are recorded as other equity.

C. Past service costs are recognized immediately as profit or loss.

3. Remuneration to employees, Directors and Supervisors

Remuneration to employees, Directors, and Supervisors are recognized as expense and liability, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently distributed amounts are accounted for changes in estimates. If employee remuneration is paid by shares, the Group calculates the number of shares based on the closing price one day prior to the Board resolution.

(XXVI) Share-Based Payment to Employees

1. For equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments on the granting date and are recognized as the remuneration cost over a vesting period, with a corresponding adjustment to equity. The fair value of the equity instruments shall reflect the impact of market vesting conditions and non-market vesting conditions. Recognized remuneration cost is subject to adjustments based on the service conditions and non-market vesting conditions that are expected to be satisfied until the amount of remuneration cost recognized is the number of equity instruments that are eventually vested on the vesting date.

2. The Company’s new restricted employee shares:

(1) Remuneration cost is recognized based on the fair value of the equity instruments on the granting date over the vesting period.

(2) For shares that can be included in dividend distribution, employees are not required to return the dividends if they resign during the vesting period. The Group recognizes the fair value of the dividends received by the employees who are expected to resign during the vesting period as remuneration cost on the dividend declaration date.

(3) Employees are not required to make payments to obtain new restricted employee shares. If an employee resigns within the vesting period, he/she

shall return the share and the Company shall cancel the share.

(XXVII) Income Tax

1. The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except for items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.
2. The current income tax expense is calculated on the basis of the tax laws substantively enacted on the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax is levied on the unappropriated retained earnings in accordance with the Income Tax Act and is recorded as income tax expense in the year the shareholders resolve to retain the earnings based on the actual earnings appropriation.
3. Deferred tax is recognized, using the balance sheet approach, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. Deferred income tax liabilities arising from the originally recognized goodwill are not recognized. Deferred income tax is not recognized if it originates from the original recognition of the asset or liability in transactions (excluding mergers) and did not affect accounting profits or taxable income (taxable loss) at the time of the transaction. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.
4. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. On each balance sheet date, unrecognized and recognized deferred tax assets are reassessed.
5. A deferred tax asset shall be recognized for the carry-forward of unused tax credits resulting from acquisitions of equipment or technology, research and development expenditures and equity investments to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilized.
6. If tax rate changes in the interim, the Group recognizes all effects of changes to

the period when such changes accrue; for income tax attributable to items not included in profit or loss, effects of changes are recognized in other comprehensive income or equity; and for income tax related to items included in profit or loss, effects of changes are recognized in profit or loss.

(XXVIII) Share Capital

1. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.
2. Where the Company repurchases the Company's equity share capital that has been issued, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently reissued, the difference between their book value and any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(XXIX) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are resolved by the Company's shareholders. Cash dividend distributions are recorded as liabilities; stock dividends distributions are recorded as stock dividends to be distributed and are reclassified as ordinary shares on the effective date of new shares issuance.

(XXX) Recognition of Revenue

1. The Group manufactures and sells integrated circuits and recognizes sales revenue when the control of goods is transferred to customers, i.e. when goods are delivered to customers and the Group doesn't have further performance obligations that might affect the acceptance of goods by customers. When goods are delivered to a specific location, the risk of delivery, obsolescence, and loss is transferred to customers, who accept the goods in accordance with the contractual terms, or when any objective evidence suggests that all criteria for the transaction have been satisfied and the goods delivery has ocurred.
2. The Group accepts sales orders from customers. Sales revenue is recognized according to the contract price, and the Company transfers the promised goods or services to customers. Since the customer's payment period does not exceed one year, the Group has not adjusted the monetary time value of the transaction price.
3. Accounts receivable are recognized when goods are delivered to customers, at which time the Group's right to the consideration for contracts from customers is unconditional, except for passage of time.

(XXXI) Operating Segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief of operating decision maker. The chief operating decision makers are responsible for allocating resources to the operating segments and assessing their performance.

V. Main Sources of Significant Accounting Judgments, Assumptions and Estimates Uncertainty

The preparation of these consolidated financial statements requires the management to make critical judgments in applying the Group's accounting policies and make critical assumptions and estimates concerning future events. Material accounting estimates and assumptions may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such estimates and assumptions have a significant risk of causing a material adjustment of the carrying amounts of assets and liabilities within the next financial year. The related explanation about the uncertainties in material accounting judgments, estimates, and assumptions is addressed below:

(I) Critical judgments in applying the Company’s accounting policies

None.

(II) Significant accounting estimates and assumptions

1. Impairment of goodwill

The assessment of goodwill impairment relies on the Group ’s subjective judgment, including identifying cash-generating units and the allocation of assets and liabilities and goodwill to the relevant cash-generating units, and determining the recoverable amount of the relevant cash-generating units. For information related to the assessment of goodwill impairment, please refer to Note 6 (11).

Total book value of goodwill on December 31, 2019 is NT$43,654.

2. Inventory valuation

As inventories are stated at the lower of cost and net realizable value, the Group must determine the net realizable value of inventories on balance sheet date using judgments and estimates. Due to the rapid technological changes, the Group evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on the balance sheet date, and writes down the cost of inventories to the net realizable value. Since the inventory valuation is estimated based on demands for products in a specific future period, it may be subject to significant changes.

Total carrying value of inventories on December 31, 2019 is NT$4,972,552.

VI. Summary of Significant Accounts

(I) Cash and cash equivalents

| | 2019.12.31 | 2018.12.31 |
|---|---|---|
| Cash on hand and revolving funds | $ 171 | $ 522 |
| Checking deposits and demand deposits | 394,658 | 226,878 |
| Time deposits | 2,362,174 | 1,646,428 |
| | $ 2,757,003 | $ 1,873,828 |

1. The Group transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty

default is remote.

2. For the restrictions on the Group's use of cash and cash equivalents as pledge guarantees, please refer to Note 8.

(II) Financial assets at fair value through profit and loss

| Items | 2019.12.31 | 2018.12.31 |
|---|---|---|
| Current items: | | |
| Financial assets mandatorily measured at fair value through profit or loss | | |
| TWSE/TPEx-listed stocks | $ 1,567 | $ 47,361 |
| Emerging stocks | 148,013 | 170,444 |
| Unlisted stocks | 23,263 | 4,413 |
| Beneficiary certificates | 74,442 | 75,152 |
| Corporate bond | 31,226 | 31,226 |
| Preference share | 14,510 | 14,866 |
| Subtotal | 293,021 | 343,462 |
| Evaluation adjustment | ( 40,428) | ( 37,088) |
| Total | $ 252,593 | $ 306,374 |

1. Financial assets measured at fair value through profit or loss that are recognized in profit loss are detailed as follows:

| | 2019 | 2018 |
|---|---|---|
| Financial assets mandatorily measured at fair value through profit or loss | | |
| Equity instruments | ($ 14,498) | ($ 81,431) |
| Debt instruments | 3,115 | ( 8,153) |
| Beneficiary certificates | 2,656 | 1,716 |
| Total | ($ 8,727) | ($ 87,868) |

2. The Group has no financial assets at fair value through profit or loss pledged as collateral.

3. For information on the credit risk of financial assets measured at fair value through profit or loss, please refer to Note 12 (2) 3.(2).

(III) Financial assets at fair value through other comprehensive income

| Items | 2019.12.31 | 2018.12.31 |
|---|---|---|
| Non-current items: | | |
| Equity instruments | | |
| Unlisted stocks | $ 59,300 | $ 59,300 |
| Evaluation adjustment | ( 8,524) | - |
| | $ 50,776 | $ 59,300 |

The Group has chosen to classify equity investment in strategic investment as financial assets at fair value through other comprehensive income, which is at NT$50,776 and NT$59,300 as of December 31, 2018 and 2019, respectively.

(IV) Accounts receivable

| | 2019.12.31 | 2018.12.31 |
|---|---|---|
| Accounts receivable - general customers | $ 1,270,992 | $ 1,109,724 |
| Accounts receivable - related parties | 241 | 478 |
| | 1,271,233 | 1,110,202 |
| Less: Allowance for losses | ( 14,295) | ( 4,289) |
| | $ 1,256,938 | $ 1,105,913 |

1. Aging analysis of accounts receivable is stated as follows:

| | 2018.12.31 | 2018.12.31 |
|---|---|---|
| Not past due | $ 1,256,700 | $ 1,094,591 |
| Past due - within 30 days | 238 | 1,285 |
| Past due - 31~90 days | - | - |
| Past due - 91~180 days | - | 14,326 |
| Past due - over 181 days | 14,295 | - |
| | $ 1,271,233 | $ 1,110,202 |

The aging analysis above is based on past due date.

2. Without regard to the security held or other credit enhancement, the maximum amounts of exposure at default best representing credit risk of the Group's accounts receivable on December 31, 2018 and December 31, 2017 are NT$1,256,938 and NT$1,105,913, respectively.

3. The collaterals and fair value of collaterals held by the Group as security for accounts receivable are as follows:

| | 2019.12.31 | 2018.12.31 |
|---|---|---|
| Bank guarantee | $ 43,494 | $ 59,215 |
| Pledged certificate of deposit | 7,500 | 7,500 |
| Deposits received (Recognized in "other noncurrent liabilities") | 8,794 | 8,600 |
| Letters of credit | 546,672 | 549,718 |
| Company promissory note/check | 366,621 | 423,737 |
| | $ 973,081 | $ 1,048,770 |

4. For credit risk information on accounts receivable, please refer to Note 12 (2).

5. The balance of accounts receivable and notes receivable on December 31, 2019 and 2018 were generated from customer contracts. The balance of receivables on customer contract on January 1, 2018, was NT$1,128,414.

6. The Group does not have account receivables provided as securities or guarantees.

(V) Inventories

| | 2019.12.31 | | |
|---|---|---|---|
| | Cost | Allowance for valuation loss | Book value |
| Raw materials | $ 158,670 | ($ 9,794) | $ 148,876 |
| Work in process | 4,013,286 | ( 70,663) | 3,942,623 |
| Finished goods | 965,399 | ( 88,739) | 876,660 |
| Inventory in transit | 4,393 | - | 4,393 |
| | $ 5,141,748 | ($ 169,196) | $ 4,972,552 |

| | 2018.12.31 | | |
|---|---|---|---|
| | Cost | Allowance for valuation loss | Book value |
| Raw materials | $ 457,571 | ($ 29,332) | $ 428,239 |
| Work in process | 4,150,475 | ( 140,498) | 4,009,977 |
| Finished goods | 1,409,237 | ( 84,824) | 1,324,413 |
| Inventory in transit | 5,027 | - | 5,027 |
| | $ 6,022,310 | ($ 254,654) | $ 5,767,656 |

The cost of inventories recognized as expense for the period:

| | 2019 | 2018 |
|---|---|---|
| Cost of inventories sold | $ 10,266,729 | $ 9,279,781 |
| Losses (reversed gains) from price decline or obsolescence of inventory | ( 85,458) | 146,416 |
| | $ 10,181,271 | $ 9,426,197 |

In 2019, the provision for the recorded falling price losses of the inventories was sold; there were reversed gains.

(VI) Investments accounted for using equity method

| | 2019 |
|---|---|
| January 1 | $ - |
| The increase in investments accounted under equity method (Note) | 46,404 |
| Share of interests from investments under equity method | ( 13,194) |
| December 31 | $ 33,210 |

| | 2019.12.31 |
|---|---|
| Associates | $ 33,210 |

2018: None.

Note: The Group held 7,795 thousand shares or NT$77,950 in its subsidiary, Canyon Semiconductor Inc. (hereinafter referred to as Canyon Semiconductor). As the Group did not participate in Canyon Semiconductor's capital increase by the issuance of shares for cash on March 4, 2019, the shareholding ratio of the Group decreased from 77.95% to 38.21%. In addition, Chang Feng Investment Co., Ltd. purchased shares of Canyon Semiconductor in December 2019, increasing its percentage of shareholding from 38.21% to 40.93%. Though the Group no longer controls Canyon Semiconductor, it has still significant influences on the subsidiary.

1. Associates

(1) Information of major associates of the Group is as follows:

| Company name | Principal places of business | Percentage of shareholding | Nature of relationship | Method of measurement |
|---|---|---|---|---|
| | | 2019.12.31 | | |
| Canyon Semiconductor Inc. | Taiwan | 40.93% | Holding over 20% of voting rights | Equity method |

(2) The summarized financial information in respect of the Group's major associates is set out as below:

Balance sheet

| | Canyon Semiconductor Inc. |
|---|---|
| | 2019.12.31 |
| Current assets | $ 91,092 |
| Noncurrent assets | 1,596 |
| Current liabilities | ( 11,549) |
| Total net assets | $ 81,139 |
| Share in the net assets of associates | $ 33,210 |
| Book value of associates | $ 81,139 |

Statement of comprehensive income

| | Canyon Semiconductor Inc. |
|---|---|
| | 2019 |
| Revenue | $ 21,440 |
| Net income (loss) for the year from the continuing department | ($ 33,589) |
| Total comprehensive income (loss) for the current period | ($ 33,589) |

## (VII) Property, plant, and equipment

| | Land | Houses and buildings | Machinery equipment | Laboratory equipment | Others | Total |
|---|---|---|---|---|---|---|
| Jan. 1, 2019 | | | | | | |
| Cost | $9,023 | $615,250 | $393,874 | $188,647 | $1,081,083 | $2,287,877 |
| Accumulated depreciation and impairment | - | ( 332,185) | ( 313,959) | ( 134,215) | ( 708,456) | ( 1,488,815) |
| | $9,023 | $283,065 | $ 79,915 | $ 54,432 | $ 372,627 | $ 799,062 |
| 2019 | | | | | | |
| January 1 | $9,023 | $283,065 | $ 79,915 | $ 54,432 | $ 372,627 | $ 799,062 |
| Additions | - | 5,496 | 35,908 | 10,070 | 159,093 | 210,567 |
| Transfer (Note 1) | - | 15,195 | - | 59,205 | - | 74,400 |
| Effect of changes in consolidated entities | - | - | - | ( 336) | ( 2,843) | ( 3,179) |
| Depreciation expenses | - | ( 32,703) | ( 38,667) | ( 20,465) | ( 292,687) | ( 384,522) |
| Dec. 31 | $9,023 | $271,053 | $ 77,156 | $102,906 | $ 236,190 | $ 696,328 |
| 2019.12.31 | | | | | | |
| Cost | $9,023 | $635,941 | $429,782 | $249,302 | $1,231,048 | $2,555,096 |
| Accumulated depreciation and impairment | - | ( 364,888) | ( 352,626) | ( 146,396) | ( 994,858) | ( 1,858,768) |
| | $9,023 | $271,053 | $ 77,156 | $102,906 | $ 236,190 | $ 696,328 |

| | Land | Houses and buildings | Machinery equipment | Laboratory equipment | Others | Total |
|---|---|---|---|---|---|---|
| Jan. 1, 2018 | | | | | | |
| Cost | $9,023 | $631,503 | $388,737 | $169,103 | $ 785,191 | $1,983,557 |
| Accumulated depreciation and impairment | - | ( 301,551) | ( 252,951) | ( 115,703) | ( 421,651) | ( 1,091,856) |
| | $9,023 | $329,952 | $135,786 | $ 53,400 | $ 363,540 | $ 891,701 |
| 2018 | | | | | | |
| January 1 | $9,023 | $329,952 | $135,786 | $ 53,400 | $ 363,540 | $ 891,701 |
| Acquisition | - | 4,116 | 5,137 | 19,993 | 296,489 | 325,735 |
| Reclassification (Note 2) | - | ( 20,369) | - | - | - | ( 20,369) |
| Depreciation expenses | - | ( 30,634) | ( 61,008) | ( 18,961) | ( 287,402) | ( 398,005) |
| Dec. 31 | $9,023 | $283,065 | $ 79,915 | $ 54,432 | $ 372,627 | $ 799,062 |
| 2018.12.31 | | | | | | |
| Cost | $9,023 | $615,250 | $393,874 | $188,647 | $1,081,083 | $2,287,877 |
| Accumulated depreciation and impairment | - | ( 332,185) | ( 313,959) | ( 134,215) | ( 708,456) | ( 1,488,815) |
| | $9,023 | $283,065 | $ 79,915 | $ 54,432 | $ 372,627 | $ 799,062 |

Note 1. Transferred from prepayments for facilities (listed in “other noncurrent assets”).

Note 2. The Group rented buildings and structures since April 2018. Thus, relevant houses and buildings are reclassified to investment property. Please refer to Note 6 (9) for details.

1. The Group has no capitalization of interests in 2019 and 2018.
2. The Group does not provide property, plant and equipment as collateral.

(VIII) Lease Transaction – Lessee

Applicable for the annual periods beginning on or after January 1, 2019

1. The Group’s leased objects include land, houses and buildings, company vehicles, and photocopy machines. The periods of the lease contract vary from 2 to 20 years. The lease contracts are negotiated individually and contain different terms and conditions. The company vehicles and staff quarters leased by the Group are classified as short-term lease contracts as the lease periods do not exceed 12 months.
2. Below is the carrying amounts of right-of-use assets and their recognized depreciation expenses:

| | 2019.12.31 | 2019 |
|---|---|---|
| | Book value | Depreciation expenses |
| Land | $ 65,641 | $ 3,420 |
| Houses and buildings | 19,270 | 7,334 |
| Company vehicles | 470 | 1,732 |
| Photocopy machines | 986 | 696 |
| | $ 86,367 | $ 13,182 |

3. The profit and loss items related to the lease contracts are as follows:

| | 2019 |
|---|---|
| Items that affect profit or loss | |
| Interest expense on lease liability | $ 1,191 |
| Rent expense of short-term leases | $ 9,052 |

4. The Group's cash outflow from leases amounted to NT$22,909 in 2019.

(IX) <u>Investment property</u>

| | Houses and buildings |
|---|---|
| Jan. 1, 2019 | |
| Cost | $ 20,369 |
| Accumulated depreciation and impairment | ( 728) |
| | $ 19,641 |
| 2019 | |
| January 1 | $ 19,641 |
| Depreciation expenses | ( 970) |
| Dec. 31 | $ 18,671 |
| 2019.12.31 | |
| Cost | $ 20,369 |
| Accumulated depreciation and impairment | ( 1,698) |
| | $ 18,671 |

| | Houses and buildings |
|---|---|
| Jan. 1, 2018 | |
| Cost | $ - |
| Accumulated depreciation and impairment | - |
| | $ - |
| 2018 | |
| January 1 | $ - |
| Reclassification | 20,369 |
| Depreciation expenses | ( 728) |
| Dec. 31 | $ 19,641 |
| 2018.12.31 | |
| Cost | $ 20,369 |
| Accumulated depreciation and impairment | ( 728) |
| | $ 19,641 |

1. Rental income from the lease of the investment property and direct operating expenses arising from the investment property:

| | 2019 | 2018 |
|---|---|---|
| Rental income from investment property | $ 2,436 | $ 1,960 |
| Direct operating expenses arising from the investment property generating rental income in the period | $ 970 | $ 728 |

2. The fair value of the investment properties held by the Group on December 31, 2019 and 2018 are NT$10,538 and NT$12,380. This is the evaluation results based on the income approach. The main assumptions are as follows:

| | 2019.12.31 | 2018.12.31 |
|---|---|---|
| Net income as a percentage of capital (Note) | 13.86% | 10.96% |

Note: Calculated based on the weighted average capital cost of the issuer.

3. The Group has no capitalization of interests in 2019 and 2018.
4. The Group does not provide investment property as collateral.

## (X) Intangible assets

| | Patent and specialized technology | Customer relations | Goodwill | Others | Total |
|---|---|---|---|---|---|
| Jan. 1, 2019 | | | | | |
| Cost | $ 34,478 | $ 11,000 | $ 80,758 | $ 159,069 | $ 285,305 |
| Accumulated amortization and impairment | ( 16,596) | ( 9,473) | ( 25,047) | ( 100,214) | ( 151,330) |
| | $ 17,882 | $ 1,527 | $ 55,711 | $ 58,855 | $ 133,975 |
| 2019 | | | | | |
| January 1 | $ 17,882 | $ 1,527 | $ 55,711 | $ 58,855 | $ 133,975 |
| Acquisition | - | - | - | 44,783 | 44,783 |
| Amortization expenses | ( 8,960) | ( 1,527) | - | ( 74,621) | ( 85,108) |
| Impairment losses | - | - | ( 12,057) | - | ( 12,057) |
| Dec. 31 | $ 8,922 | $ - | $ 43,654 | $ 29,017 | $ 81,593 |
| 2019.12.31 | | | | | |
| Cost | $ 34,478 | $ 11,000 | $ 80,758 | $ 203,852 | $ 330,088 |
| Accumulated amortization and impairment | ( 25,556) | ( 11,000) | ( 37,104) | ( 174,835) | ( 248,495) |
| | $ 8,922 | $ - | $ 43,654 | $ 29,017 | $ 81,593 |

| | Patent and specialized technology | Customer relations | Goodwill | Others | Total |
|---|---|---|---|---|---|
| Jan. 1, 2018 | | | | | |
| Cost | $ 19,183 | $ 11,000 | $ 80,758 | $ 170,003 | $ 280,944 |
| Accumulated amortization and impairment | ( 8,927) | ( 5,806) | - | ( 112,142) | ( 126,875) |
| | $ 10,256 | $ 5,194 | $ 80,758 | $ 57,861 | $ 154,069 |
| 2018 | | | | | |
| January 1 | $ 10,256 | $ 5,194 | $ 80,758 | $ 57,861 | $ 154,069 |
| Acquisition | 15,295 | - | - | 73,790 | 89,085 |
| Amortization expenses | ( 7,669) | ( 3,667) | - | ( 72,796) | ( 84,132) |
| Impairment losses | - | - | ( 25,047) | - | ( 25,047) |
| Dec. 31 | $ 17,882 | $ 1,527 | $ 55,711 | $ 58,855 | $ 133,975 |
| 2018.12.31 | | | | | |
| Cost | $ 34,478 | $ 11,000 | $ 80,758 | $ 159,069 | $ 285,305 |
| Accumulated amortization and impairment | ( 16,596) | ( 9,473) | ( 25,047) | ( 100,214) | ( 151,330) |
| | $ 17,882 | $ 1,527 | $ 55,711 | $ 58,855 | $ 133,975 |

1. Details of the amortization of intangible assets are as follows:

| | 2019 | 2018 |
|---|---|---|
| Operating costs | $ 8,405 | $ 6,336 |
| Selling expenses | 1,864 | 4,034 |
| Administrative expenses | 711 | 860 |
| Research and development expenses | 74,128 | 72,902 |
| | $ 85,108 | $ 84,132 |

2. The Group has no capitalization of interests in 2019 and 2018.
3. There is no impairment of tangible assets. Please refer to Note 6 (11) for explanation.

4. The Group does not provide intangible assets collateral.

(XI) Impairment of non-financial assets

The Group performs impairment tests on the recoverable amount of goodwill on the balance sheet date. The recoverable amount of the cash-generating unit has been evaluated based on the value in use, which is calculated based on the cash flow forecast for the next five years approved by management as the basis for estimation. The relevant discount rates for 2019 and 2018 were 13.86% and 12.5%, respectively. The value used by the Group to calculate cash-generating units is derived from historical information on estimated future revenue growth rates, gross profit margins, and operating expense ratios, with reference to future industrial economic trends.

The recoverable amount calculated based on the above key assumptions is lower than the book value of goodwill. Thus the Group recognized impairment losses of NT$12,057 and NT$25,047 in 2019 and 2018, respectively.

(XII) Short-term borrowings

| Loan type | 2019.12.31 | Interest rate collars | Collateral |
|---|---|---|---|
| Borrowings from banks | | | |
| Credit loans | $ 274,000 | 0.98%～1.90% | None |

| Loan type | 2018.12.31 | Interest rate collars | Collateral |
|---|---|---|---|
| Due to Banks | | | |
| Credit loans | $ 370,000 | 0.98%～1.05% | None |

The interest expenses recognized in profit and loss in 2019 and 2018 were NT$8,681 and NT$3,353, respectively.

(XIII) Other payables

| | 2019.12.31 | 2018.12.31 |
|---|---|---|
| Salary and bonus payables | $ 295,252 | $ 331,941 |
| Remuneration to employees and Directors | 36,191 | 53,667 |
| Payable on equipment | 58,026 | 41,100 |
| Others | 73,054 | 79,527 |
| | $ 462,523 | $ 506,235 |

(XIV) Pension

1. (1) The Company has a defined benefit pension plan in accordance with the Labor Standards Act, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to adopt the pension mechanism under the Act. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company monthly contributes 2% of the total salary as a pension fund, which is deposited in a designated account with the Bank of Taiwan under

the name of the Supervisory Committee of Labor Retirement Reserve. Also, the Company annually assesses the balance in the aforementioned labor pension reserve account by December 31. If the account balance is insufficient for the pension calculated by the aforementioned method to the employees expected to qualify for retirement in the following year, the Company will make contribution for the deficit by next March.

(2) The amounts recognized in the balance sheet are determined as follows:

| | 2019.12.31 | 2018.12.31 |
|---|---|---|
| Present value of defined benefit obligation | $ 2,739 | $ 1,614 |
| Fair value of employee benefit plan assets | ( 2,409) | ( 2,164) |
| | 10,330 | 9,450 |
| Unadjusted amount for the period | ( 21) | 766 |
| Recognized in net profit or loss in balance sheet | $ 10,309 | $ 10,216 |

(3) Changes in net defined benefit liabilities are as follows:

| | Present value of defined benefit obligation | Fair value of employee benefit plan assets | Net defined benefit liabilities |
|---|---|---|---|
| 2019 | | | |
| Balance as of January 1 | ($ 11,614) | $ 2,164 | ($ 9,450) |
| Current service costs | ( 299) | - | ( 299) |
| Interest income (expense) | ( 116) | 21 | ( 95) |
| | ( 12,029) | 2,185 | ( 9,844) |
| Remeasurement: | | | |
| Return on plan assets (not including interest revenue or expenses) | - | 74 | 74 |
| Changes in financial assumptions | ( 385) | - | ( 385) |
| Experience adjustment | ( 325) | - | ( 325) |
| | ( 710) | 74 | ( 636) |
| Allocation of pension funds | - | 150 | 150 |
| Unadjusted amount for the period | - | - | 21 |
| Balance as of December 31 | ($ 12,739) | $ 2,409 | ($ 10,309) |

| | Present value of defined benefit obligation | Fair value of employee benefit plan assets | Net defined benefit liabilities |
|---|---|---|---|
| 2018 | | | |
| Balance as of January 1 | ($ 10,817) | $ 1,945 | ($ 8,872) |
| Current service costs | ( 287) | - | ( 287) |
| Interest income (expense) | ( 119) | 21 | ( 98) |
| | ( 11,223) | 1,966 | ( 9,257) |
| Remeasurement: | | | |
| Return on plan assets (not including interest revenue or expenses) | - | 54 | 54 |
| Changes in financial assumptions | ( 128) | - | ( 128) |
| Experience adjustment | ( 263) | - | ( 263) |
| | ( 391) | 54 | ( 337) |
| Allocation of pension funds | - | 144 | 144 |

| | | | |
|---|---|---|---|
| Unadjusted amount for the period | - | - | ( 766) |
| Balance as of December 31 | ($ 11,614) | $ 2,164 | ($ 10,216) |

(4) The fund asset of the Company's defined benefit pension plan ("the Fund") is entrusted to the Bank of Taiwan, which manages, or entrusts others to manage the Fund in accordance with entrusted items enumerated in Article 6 of the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund (i.e., deposit in domestic or foreign institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, and investment in domestic or foreign real estate and its securitization products) to the extent of limitations on investment percentage and amount as stipulated in the Fund’s annual utilization plan. With regard to the utilization of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings are less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan asset fair value in accordance with paragraph 142 of IAS 19. The composition of plan assets fair value as of December 31, 2019 and 2018 is given in the Annual Labor Retirement Fund Utilization Report announced by the government.

(5) The principal actuarial assumptions used are as follows:

| | 2019 | 2018 |
|---|---|---|
| Discount rate | 0.70% | 1.10% |
| Future salary increase rate | 3.00% | 3.00% |

The assumptions of the future mortality rate in 2019 and 2018 are estimated according to the fifth life experience table in Taiwan.

The analysis of the present value of the defined benefit obligations affected by changes in the main actuarial assumptions used is as follows:

| | Discount rate | | Future salary increase rate | |
|---|---|---|---|---|
| | Increase by 0.25% | Decrease by 0.25% | Increase by 0.25% | Decrease by 0.25% |
| 2019.12.31 | | | | |
| Effect on present value of defined benefit obligation | ($ 322) | $ 332 | $ 292 | ($ 285) |
| 2018.12.31 | | | | |
| Effect on present value of defined benefit obligation | ($ 317) | $ 328 | $ 292 | ($ 284) |

The sensitivity analysis above was based on one assumption which changed while the other conditions remain unchanged. In practice, more than one assumption may change all at once. The method of analyzing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

(6) Expected contributions to the defined benefit pension plans of the Company are NT$153 for the year ended December 31, 2020.

(7) As of December 31, 2019, the weighted average duration of the retirement plan is 10 years. The maturity analysis of the pension payments is as follows:

| | | |
|---|---|---|
| Within 1 year | $ | 326 |
| 1 - 2 years | | 132 |
| 2 - 5 years | | 397 |
| Over 5 years | | 5,138 |
| | $ | 5,993 |

2. (1) Effective since July 1, 2005, the Company and its domestic subsidiaries have established a defined contribution pension plan ("the Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. Nationality. Under the Plan, the Company and its domestic subsidiaries contribute monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in a lump sum upon the termination of employment.

(2) The subsidiary, Eon Silicon Solutions, Inc. USA, established the 401 (K) plan in accordance with Article 401 (K) of the US Tax Regulations. Local employees can allocate a certain amount of salary to their retirement account each month within the upper limit. Companies may allocate an additional amount according to its policy as a reward or to retain employees.

(3) The subsidiary, Elite Semiconductor Memory Technology (Shenzhen) Inc., has paid the monthly pension insurance according to a certain percentage of the total salary of local employees according to the pension insurance system stipulated by the People's Republic of China. The allocation ratio for 2019 and 2018 is 14%. The employee pension is managed and arranged by the government. Other than the monthly contributions, the Group has no further obligations.

(4) For the years ended December 31, 2019 and 2010, the net pension costs recognized under the defined contribution plan were NT$31,323 and NT$31,060, respectively.

(XV) Share-based payments

1. In 2019 and 2018, the Company's share-based payment agreement provided as follows:

| Type of agreement | Grant date | Quantity granted | Contract period | Vesting conditions |
|---|---|---|---|---|
| Subsequent to 2008 Eon Silicon Solution Inc.'s employee share purchase plan | Jun. 1, 2008 and Aug. 1, 2008 | 5,000 thousand shares (Note 2) | 10 years | Note 1 |
| Subsequent to 2010 Eon Silicon Solution Inc.'s employee share purchase plan | Aug. 10, 2010, Oct. 15, 2010 and Jan. 13, 2011 | 4,000 thousand shares (Note 2) | 10 years | Note 1 |
| Subsequent to 2013 Eon Silicon Solution Inc.'s employee share purchase plan | Aug.19.2013 | 7,500 thousand shares (Note 2) | 10 years | Note 1 |

Note 1. Percentages of subscription vesting after 2, 3 and 4 years of service are 50%, 75% and 100%.

Note 2. The Company succeeded the employee share subscription plan of Eon Silicon Solution Inc. The date or amount of share subscription are the same as the original plan. After the merger with Eon Silicon Solution Inc., the Company succeeded the outstanding employee share subscription options of 262 thousand shares, 219 thousand shares, and 688 thousand shares in 2008, 2010 and 2013, respectively.

The said share-based payment arrangements are all settled in equity.

2. Detailed information on the said share-based payment arrangements is as follows:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Number of stock options | Weighted average Exercise price | Number of stock options | Weighted average Exercise price |
| Outstanding stock options as of January 1 | 621 | $ 62.3~319.0 | 880 | $ 65.9~337.4 |
| Abandoned share option for the period | ( 78) | - | ( 73) | - |
| Overdue share option for the period | - | - | ( 186) | - |
| Outstanding stock options as of December 31 | 543 | $ 59.2~303.4 | 621 | $ 62.3~319.0 |
| Exercisable stock options as of December 31 | 543 | | 621 | |

3. There were no share options executed in 2019 and 2018.

4. As of December 31, 2019 and 2018, the exercise prices of the outstanding share option range between NT$59.2 ~ NT$303.4 and NT$62.3 ~ NT$319.0, respectively. The weighted average remaining contract period is 3.64 years and 4.64 years, respectively.

5. The abovementioned share-based payment transactions incurred in 2019 and 2018 were both $ 0.

(XVI) Share capital

1. As of December 31, 2019; the Company's rated capital was NT$3,500,000, divided into 350,000 thousand shares (including 20,000 thousand employee stock option certificate subscription shares). The paid-up capital is

NT$2,857,589, with par value of $10.

Quantities of the Company's outstanding common stock at the beginning and ending of periods were reconciled as follows:

Shares: thousand shares

| | 2019 | 2018 |
|---|---|---|
| Outstanding shares as of January 1 | 272,320 | 272,320 |
| Outstanding shares as of December 31 | 272,320 | 272,320 |
| Treasury shares at the end of the period | 13,439 | 13,439 |
| Number of shares issued as of December 31 | 285,759 | 285,759 |

2. Treasury stock

Due to operation strategies of its parent company, the Company's subsidiary - Jie Yong Investment Co., Ltd., held 13,439 thousand shares in the Company as of December 31, 2019 and 2018, with a book value of NT$328,048, an average book value of NT$24.4 per share, fair value of NT$38.9 and NT$30.05, respectively.

(XVII) Capital surplus

According to the Company Act, capital surplus arising from paid-in capital in excess of par value on the issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to stockholders in proportion to their share ownership, provided that the Company has no accumulated deficit. In accordance with regulations in the Securities and Exchange Act, when the abovementioned capital reserve is used for capitalization, the total amount every year shall not exceed 10% of the paid-in capital. Capital surplus shall not be used to cover accumulated deficit unless the legal reserve is insufficient.

| | 2019 | | | | |
|---|---|---|---|---|---|
| | Treasury stock transactions | Recognition of effects from all equity changes in subsidiaries and associates | Employee share option | Others | Total |
| January 1 | $ 1,661 | $ 49,710 | $ 3,913 | $ 3,788 | $ 59,072 |
| Recognition of effects from all equity changes in subsidiaries - Cash dividends | - | 1,146 | - | - | 1,146 |
| Disposal of subsidiaries | - | 35,475 | - | - | 35,475 |
| Adjustment to surplus reserve from dividends paid to subsidiary | - | 8,438 | - | - | 8,438 |
| Changes in equity of associates joint ventures accounted for using equity method | - | 180 | - | - | 180 |
| Dividends that are not collected before the designated date shall be transferred to capital surplus. | - | - | - | 39 | 39 |
| Adjustment for dividends that are not collected before the designated date | - | - | - | ( 45) | ( 45) |
| December 31 | $ 1,661 | $ 94,949 | $ 3,913 | $ 3,782 | $104,305 |

| | 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Shares premium | Treasury stock transactions | Recognition of effects from all equity changes in subsidiaries and associates | Employee share option | Others | Total |
| January 1 | $68,929 | $1,661 | $ 42,142 | $3,913 | $ - | $116,645 |
| The distribution of cash dividend from capital surplus | ( 68,929) | - | - | - | - | ( 68,929) |
| Recognition of effects from all equity changes in subsidiaries - Cash dividends | - | - | 1,146 | - | - | 1,146 |
| Recognition of effects from all equity changes in subsidiaries - Non-controlling | - | - | ( 69) | - | - | ( 69) |
| The changes in the net value of shares issued by subsidiaries not recognized in proportion to the shareholding | - | - | ( 6,117) | - | - | ( 6,117) |
| Adjustment to surplus reserve from dividends paid to subsidiary | - | - | 12,608 | - | - | 12,608 |
| Dividends that are not collected before the designated date shall be transferred to capital surplus. | - | - | - | - | 3,788 | 3,788 |
| December 31 | $ - | $1,661 | $ 49,710 | $3,913 | $3,788 | $ 59,072 |

(XVIII) Retained earnings

1. According to the Company's Articles of Incorporation, the current year's earnings, if any, shall be distributed in the following order:
   (1) Pay taxes
   (2) Set off deficits
   (3) Appropriate 10% as legal reserve
   (4) Appropriate for special reserve if necessary
   (5) The remaining shall be allocated as dividends for shareholders and will be distributed according to the ratio of shareholdings or withheld as accumulated earnings pursuant to the resolution from the Shareholders' Meeting.
2. Dividend policy

   The Company is still in the growth stage. If more than 5% of the total surplus is determined to be distributed as dividends, it shall be distributed by cash and the rest will be distributed by shares.
3. Legal reserves may only be used for offsetting deficits and issuing new shares or distributing cash in proportion to shareholders' original holdings. However, when new shares are issued or cash is distributed, the amount shall be limited to 25% of the reserves in excess of the paid-in capital.

4. (1) In accordance with the regulations, the Company shall set aside special surplus reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.

   (2) When adopted IFRSs for the first time, the Company appropriates a special reserve according to Jin-Guan-Zheng-Fa-Zi Letter No. 1010012865 dated April 6, 2012. When the Company subsequently uses, disposes or reclassifies the relevant assets, it reverses the proportion of the original special reserve. If the aforesaid related assets are investment properties, the part of the land will be reversed during the disposal or reclassification, and the part other than land will be reversed during the period of use.

5. The Company passed the motion of the distribution of 2017 profit at the Board Meeting on March 22, 2018. It is proposed to appropriate NT$86,517 as the legal reserve, and distribute cash dividends of NT$571,518 at NT$2 per share. The aforementioned surplus distribution was approved at the Shareholders' Meeting on June 14, 2018.
6. The Company passed the motion to distribute NT$68,929 by cash from capital surplus, at NT$0.24121454 per share at the Board Meeting on March 22, 2018. The aforementioned distribution of 2017 capital surplus was passed by the Shareholders' Meeting on Jun. 14, 2018.
7. The Company passed the motion of the distribution of 2018 profit at the Board Meeting on March 18, 2019. It is proposed to appropriate NT$70,651 as the legal reserve and distribute cash dividends of NT$428,638 at NT$1.5 per share. The aforementioned surplus distribution was approved at the Shareholders' Meeting on June 13, 2019.
8. The Company passed the motion of the distribution of 2019 profit at the Board Meeting on March 20, 2020. It is proposed to appropriate NT$49,804 as the legal reserve and distribute cash dividends of NT$285,759 at NT$1 per share. The aforementioned surplus distribution has not been approved at the Shareholders' Meeting.

(XIX) Operating income

| | 2019 | 2018 |
|---|---|---|
| Revenue from customers contracts | $ 11,983,479 | $ 11,555,124 |

1. Disaggregation of revenue from customers contracts

   The Group derives revenue from the transfer of goods over time and at a point in time in the following major product lines and geographical regions:

| 2019 | Domestic | Asia | Others | Total |
|---|---|---|---|---|
| Integrated circuit | $5,153,908 | $6,643,377 | $ 186,194 | 11,983,479 |

| 2018 | Domestic | Asia | Others | Total |
|---|---|---|---|---|
| Integrated circuit | $5,025,713 | $6,308,051 | $ 221,360 | 11,555,124 |

2. Contract liabilities

The contract liabilities in relation to customers contract recognized by the Group are as follows:

| | 2019.12.31 | 2018.12.31 | 2018.1.1 |
|---|---|---|---|
| Contract liabilities – advance from customers | $ 3,959 | $ 3,710 | $ 10,494 |

Revenue recognized that was included in the contract liability balance at the beginning of the period:

| | 2019 | 2018 |
|---|---|---|
| Contract liabilities – advance from customers | $ 3,536 | $ 10,414 |

(XX) Other income

| | 2019 | 2018 |
|---|---|---|
| Interest income: | | |
| Interest from bank deposits | $ 45,955 | $ 51,647 |
| Interest income from financial assets at amortized cost | 2,420 | 1,791 |
| Other interest incomes | 1,291 | 38 |
| Total interest income | 49,666 | 53,476 |
| Rent income | 5,427 | 3,973 |
| Dividend income | 26,570 | 30,622 |
| Other income - others | 8,503 | 17,119 |
| | $ 90,166 | $ 105,190 |

(XXI) Other gains or losses

| | 2019 | 2018 |
|---|---|---|
| Net gain (loss) on foreign exchange | ($ 45,141) | $ 55,656 |
| Loss on financial assets measured at fair value through profit or loss | ( 8,727) | ( 87,868) |
| Impairment losses | ( 12,057) | ( 25,047) |
| Other expenses | ( 970) | ( 1,199) |
| | ($ 66,895) | ($ 58,458) |

(XXII) Financial costs

| | 2019 | 2018 |
|---|---|---|
| Interest expenses: | | |
| Borrowings from banks | $ 5,340 | $ 3,359 |
| Provisions - discount amortization | 1,291 | 1,181 |
| Lease liabilities | 1,191 | - |
| Total interest expenses | 7,822 | 4,540 |
| Others | 1,018 | 347 |
| | $ 8,840 | $ 4,887 |

(XXIII) Additional information on the nature of these expenses

| | 2019 | 2018 |
|---|---|---|
| Employee benefits expenses | $ 943,207 | $ 1,019,426 |
| Depreciation expenses of property, plant, and equipment | 384,522 | 398,005 |
| Depreciation expenses of right-of-use assets | 13,182 | - |
| Depreciation expenses of investment property | 970 | 728 |
| Amortization expenses of intangible assets | 85,108 | 84,132 |
| | $ 1,426,989 | $ 1,502,291 |

(XXIV) Employee benefits expenses

| | 2019 | 2018 |
|---|---|---|
| Salaries and wages | $ 839,534 | $ 916,044 |
| Labor insurance and national health insurance | 48,285 | 46,967 |
| Pension expenses | 31,872 | 31,589 |
| Remuneration to Directors | 7,549 | 8,814 |
| Other personnel cost | 15,967 | 16,012 |
| | $ 943,207 | $ 1,019,426 |

1. Pursuant to the Articles of Incorporation, the Company shall set side no less than 5% as remuneration to employees and 1% as remuneration to Directors from the net profit before tax minus the amount of distributed employee and Director remuneration.
2. For the years ended December 31, 2019, and 2018, the Company recognized remuneration to employees in the amounts equal to NT$29,970 and NT$44,457, respectively, and remuneration to Directors and Supervisors in the amounts equal to NT$5,994 and NT$8,891 respectively, all presented under payroll expense.

   For the years ended December 31, 2019, and 2018, the subsidiary recognized remuneration to employees in the amounts equal to NT$4 and NT$4 respectively, and remuneration to Directors and Supervisors in the amounts equal to NT$223 and NT$315, respectively, all presented under payroll expense.
3. Employees' remuneration and Directors' remuneration of the Board of Directors' resolution for the year ended December 31, 2018 were equal to the amount recognized in the financial statements for the year ended December 31, 2018.
4. Information on the remunerations for employees and Directors and Supervisors which were approved by the Board of Directors of the Company can be obtained from the Market Observation Post System (MOPS).

## (XXV) Income tax

1. Income tax expense

(1) Components of income tax expense:

| | 2019 | 2018 |
|---|---|---|
| Income tax for the period: | | |
| Income tax from the income incurred for the period | $ 55,223 | $ 139,383 |
| Additional tax on undistributed earnings | 10,378 | 1,468 |
| Prior year income tax over/underestimation | 316 | ( 3,488) |
| Total income tax in the period | 65,917 | 137,363 |
| Deferred income tax: | | |
| Initial recognition and reversal of temporary differences | 4,652 | ( 5,297) |
| Income tax expenses | $ 70,569 | $ 132,066 |

(2) Income tax amounts associated with other comprehensive income: None.

(3) Income tax amounts directly debited or credited to equity: None.

2. Reconciliation between income tax expense and accounting profits:

| | 2019 | 2018 |
|---|---|---|
| Income tax expense at the statutory rate (Note) | $ 108,571 | $ 169,960 |
| Expenses which shall be excluded in accordance with the provisions of the tax law | - | 15,224 |
| Tax exempted income by tax regulation | ( 1,276) | - |
| Tax effects from alternative minimum tax | 3,870 | 11,552 |
| Prior year income tax under/overestimation | 316 | ( 3,488) |
| Tax effects of tax-exempt income | ( 36,435) | ( 102,403) |
| Tax effect of temporary differences | ( 14,855) | 39,753 |
| Additional tax on undistributed earnings | 10,378 | 1,468 |
| Income tax expenses | $ 70,569 | $ 132,066 |

Note: The applicable tax rate is based on the tax rate applicable in the country concerned.

3. The amounts of deferred tax assets or liabilities as a result of temporary differences are as follows:

| | 2019 | | | |
|---|---|---|---|---|
| | January 1 | Recognized in profit and loss | Recognized in other comprehensive income | December 31 |
| Deferred income tax assets: | | | | |
| - Temporary differences: | | | | |
| Doubtful debt expenses | $ 48 | $ - | $ - | $ 48 |
| Unrealized exchange losses | 60 | 93 | - | 153 |
| Losses on inventory valuation loss and obsolescence | 2,545 | ( 857) | - | 1,688 |
| Pension liability | 57 | 4 | - | 61 |
| Others | 2,464 | ( 240) | - | 2,224 |
| Subtotal | 5,174 | ( 1,000) | - | 4,174 |
| - Deferred tax liabilities: | | | | |
| Unrealized exchange gains | ( 1,078) | ( 3,653) | - | ( 4,731) |
| Subtotal | ( 1,078) | ( 3,653) | - | ( 4,731) |
| Total | $ 4,096 | ($ 4,653) | $ - | ($ 557) |

| | 2018 | | | |
|---|---|---|---|---|
| | January 1 | Recognized in profit and loss | Recognized in other comprehensive income | December 31 |
| Deferred income tax assets: | | | | |
| - Temporary differences: | | | | |
| Doubtful debt expenses | $ 4 | $ 44 | $ - | $ 48 |
| Unrealized exchange losses | 195 | ( 135) | - | 60 |
| Losses on inventory valuation loss and obsolescence | 916 | 1,629 | - | 2,545 |
| Pension liability | 45 | 12 | - | 57 |
| Others | 1,294 | 1,170 | - | 2,464 |
| Subtotal | 2,454 | 2,720 | - | 5,174 |
| - Deferred tax liabilities: | | | | |
| Unrealized exchange gains | ( 1,350) | 272 | - | ( 1,078) |
| Others | ( 2,305) | 2,305 | - | - |
| Subtotal | ( 3,655) | 2,577 | - | ( 1,078) |
| Total | ($ 1,201) | $ 5,297 | $ - | $ 4,096 |

4. The amounts of deductible temporary differences that were not recognized as deferred tax assets are as follows:

| | 2019.12.31 | 2018.12.31 |
|---|---|---|
| Deductible temporary difference | $ 381,968 | $ 491,508 |

5. The Company did not recognize the deferred income tax liabilities for the taxable temporary differences related to certain subsidiaries' investments. For the years ended December 31, 2019 and 2018, the amount of temporary difference that has not been recognized as deferred income tax liabilities was NT$0 for both years.

6. The Company's businesses conforming to the "Regulations for Encouraging

Manufacturing Enterprises and Technical Service Enterprises in the Newly Emerging, Important, and Strategic Industries" may benefit from the income tax exemption for for-profit businesses for five consecutive years (expired in December 2019).

7. The profit-seeking enterprise income tax of the Company is approved by the taxation authority through 2017.

(XXVI) Earnings per share

| | 2019 | | |
|---|---|---|---|
| | After-tax amount | Weighted average number of common shares outstanding (in thousand shares) | Earnings per share (NT$) |
| Basic earnings per share | | | |
| Profit for the period attributable to ordinary shareholders of the parent company | $ 497,405 | 280,133 | 1.78 |
| Assumed conversion of dilutive potential ordinary shares (Note) | | | |
| Remuneration to employees | | 1,057 | |
| Diluted earnings per share | | | |
| Profit attributable to ordinary shareholders of the parent company considering the assumed conversion of all dilutive potential ordinary stocks | $ 497,405 | 281,190 | 1.77 |

| | 2018 | | |
|---|---|---|---|
| | After-tax amount | Weighted average number of common shares outstanding (in thousand shares) | Earnings per share (NT$) |
| Basic earnings per share | | | |
| Profit for the period attributable to ordinary shareholders of the parent | $ 706,508 | 280,133 | 2.52 |
| Assumed conversion of dilutive potential ordinary shares (Note) | | | |
| Remuneration to employees | | 1,725 | |
| Diluted earnings per share | | | |
| Profit attributable to ordinary shareholders of the parent company considering the assumed conversion of all dilutive potential ordinary stocks | $ 706,508 | 281,858 | 2.51 |

Note: There was a antidilution effect in 2019 and 2018 due to employee share option. Thus, it is not included for calculation.

(XXVII) Transactions with non-controlling interests

1. The Group’s subsidiary, Canyon Semiconductor Inc., made a capital reduction on April 26, 2018 to set off its deficits. The company increased its capital by issuing new shares on April 27, 2018. The Group did not subscribe in accordance with the shareholding ratio and therefore the equity increased by 9.45%. This increased non-controlling equity by NT$6,117, and equity attributable to owners of the parent company decreased by NT$6,117. The effect of the change in equity of Canyon Semiconductor Inc. on the owners of the parent company for the year 2018:

| | 2018 |
|---|---|
| Cash | $ - |
| Increase in the carrying amount of non-controlling interests | 6,117 |
| Capital surplus changes in non-controlling interests | $ 6,117 |

2. The Group acquired an additional 40% of issued shares of 3R Semiconductor Technology Inc. with NT$9,407 on October 5, 2018. The face value of non-controlling interests of 3R Semiconductor Technology Inc. was NT$9,338. This decreased non-controlling equity by NT$9,338, and equity attributable to owners of the parent company decreased by NT$69. The effect of the change in equity of 3R Semiconductor Technology Inc. on the owners of the parent company for the year 2018:

| | 2018 |
|---|---|
| Carrying amount of non-controlling interests | $ 9,338 |
| Consideration paid to non-controlling interests | ( 9,407) |
| Capital reserve - Difference in the share price and nominal value of the acquired shares of subsidiaries | ($ 69) |

(XXVIII) Supplemental cash flow information

1. Investing activities with partial cash paid:

| | 2019 | 2018 |
|---|---|---|
| Purchase of property, plant, and equipment (including transfers) | $ 284,967 | $ 325,735 |
| Add: Beginning equipment payables | 41,100 | 84,669 |
| Less: End equipment payables | ( 58,026) | ( 41,100) |
| Cash paid in the period | $ 268,041 | $ 369,304 |

2. Changes in liabilities from financing activities

| | Short-term borrowings | Short-term notes and bills payable | Lease liabilities | Total financing liability |
|---|---|---|---|---|
| Jan. 1, 2019 | $ 370,000 | $ 99,932 | $ 105,090 | $ 575,022 |
| Changes in financing cash flows | ( 96,000) | ( 99,932) | ( 12,525) | ( 208,457) |
| Interest payments | - | - | ( 1,332) | ( 1,332) |
| Interest expenses | - | - | 1,191 | 1,191 |
| Foreign exchange impact amount | - | - | 229 | 229 |
| Others | - | - | ( 5,766) | ( 5,766) |
| 2019.12.31 | $ 274,000 | $ - | $ 86,887 | $ 360,887 |

| | Short-term borrowings | Short-term notes and bills payable | Total financing liability |
|---|---|---|---|
| Jan. 1, 2018 | $ - | $ - | $ - |
| Changes in financing cash flows | 370,000 | 99,932 | 469,932 |
| 2018.12.31 | $ 370,000 | $ 99,932 | $ 469,932 |

## VII. Related-Party Transactions

### (I) Names of related parties and relationship

| Name | Relationship with the Group |
|---|---|
| Arima Lasers Corp. | The Company’s subsidiary as this company’s director |
| Feeling Technology Corp. (Note) | The Company’s Director as this company’s director |
| Canyon Semiconductor Inc. | Investee under indirect equity valuation method |

Note: No longer an affiliate since May 1, 2018.

(II) Remuneration to key management

| | 2019 | 2018 |
|---|---|---|
| Salary and other short-term employees' benefits | $ 36,572 | $ 43,177 |
| Benefits after retirement | 432 | 432 |
| Total | $ 37,004 | $ 43,609 |

VIII. Pledged Assets

Assets pledged as collateral by the Group are enumerated as follows:

| | Carrying amount | | |
|---|---|---|---|
| Assets | 2019.12.31 | 2018.12.31 | Purpose of pledge item |
| Time deposits (listed in "other current assets") | $ 3,969 | $ 2,267 | Guarantee for the land leased |

IX. Significant Contingent Liabilities and Unrecognized Contractual Commitments

(I) Operating lease

Applicable for the annual periods beginning on or after January 1, 2018

The Group's leases of land, plant and office are non-cancellable business lease agreements. Most lease agreements can be renewed at the market price at the end of the lease term. Future minimum lease payments arising from non-cancellable leases are stated as follows:

| | 2018.12.31 |
|---|---|
| Less than one year | $ 19,908 |
| Later than one year and no later than five years | 31,050 |
| Over five years | 9,867 |
| Total | $ 60,825 |

(II) Unused letters of credit issued

Unused letters of credit issued due to purchases by the Group is as follows:

| | 2019.12.31 | 2018.12.31 |
|---|---|---|
| Unused letters of credit issued | $ - | $ 18,806 |

X. Significant Disaster Losses

None.

XI. Significant Events after the End of the Financial Reporting Period

The allocation of profit has been approved at the Board Meeting on Mar. 20, 2020. Please refer to Note 6 (18) for details.

XII. Others

(I) Capital management

Considering the industrial characteristics, future development, and changes in the environment, the Group plans working capital, research and development expenses and dividends to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure, so as to provide returns for shareholders.

To maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or cash to shareholders, or repurchase shares.

The Group's debt-to-capital ratios as of December 31, 2019 and 2018 are stated as below:

| | 2019.12.31 | 2018.12.31 |
|---|---|---|
| Total asset value | $ 10,480,320 | $ 10,289,312 |
| Total liabilities | ( 3,139,541) | ( 3,044,874) |
| Total equity | $ 7,340,779 | $ 7,244,438 |
| Debt-to-capital ratio | 43% | 42% |

(II) Financial instruments

1. Categories of financial instruments

| | 2019.12.31 | 2018.12.31 |
|---|---|---|
| Financial assets | | |
| Financial assets mandatorily measured at fair value through profit or loss | $ 252,593 | $ 306,374 |
| Financial assets at fair value through other comprehensive income | | |
| Designated equity instrument investment | $ 50,776 | $ 59,300 |
| Financial assets measured at cost after amortization | | |
| Cash and cash equivalents | $ 2,757,003 | $ 1,873,828 |
| Financial assets measured at cost after amortization - current | 140,906 | - |
| Notes receivable | 34 | - |
| Accounts receivable | 1,256,938 | 1,105,913 |
| Other receivables | 82,741 | 68,540 |
| Time deposits (listed in other current assets) | 3,969 | 2,267 |
| Refundable deposits (listed in other non-current assets) | 6,261 | 6,846 |
| | $ 4,247,852 | $ 3,057,394 |
| Financial liabilities | | |
| Short-term borrowings | $ 274,000 | $ 370,000 |
| Short-term notes and bills payable | - | 99,932 |
| Notes payable | 1,981 | 2,745 |
| Accounts payable | 2,225,909 | 1,894,371 |
| Other payables | 462,523 | 506,235 |
| Refundable deposits (listed in other non-current liabilities) | 9,871 | 9,601 |
| | $ 2,974,284 | $ 2,882,884 |
| Lease liabilities | $ 86,887 | $ - |

2. Risk management policies

(1) The Company adopts overall risk management and control system to identify all the risks, including market risk, credit risk, liquidity risk, and cash flow risk, which allows the management level to effectively control and measure market risk, credit risk, liquidity risk, and cash flow risk.

(2) The Group management can effectively control market risk in order to lower the risk, maintain appropriate liquidity position and conduct centralized management of all market risks, with consideration to the economic environment, competition and market value risk under the influence to achieve optimal risk purpose.

3. Significant financial risks and degrees of financial risks

(1) Market risk

Foreign exchange risk

A. The Company operates internationally and is exposed to foreign exchange risk arising from various functional currency exposures, primarily with respect to the USD and CNY. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities.

B. Management of the Group has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. The group companies are required to hedge their entire foreign exchange risk exposure with the Group treasury. To manage their foreign exchange risk arising from future commercial transactions and recognized assets and liabilities, entities in the Group use forward foreign exchange contracts. The foreign exchange risk arises when future commercial transactions and recognized assets and liabilities are denominated in foreign currencies other than the entity's functional currency.

C. The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. The currency exposure arising from the net assets of the Group's foreign operations is managed primarily through savings denominated in the relevant foreign currencies. Please refer to Note 6 (1) for details.

D. The Group's businesses involve non-functional currency operations (the functional currency of the Company and its subsidiaries: NTD) and are thus affected by the exchange rate fluctuation. The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

| | 2019.12.31 | | |
|---|---|---|---|
| **(Foreign currency: Functional currency)** | Foreign currency (thousand) | Exchange rate | Book value (NT$1,000) |
| Financial assets | | | |
| Monetary items | | | |
| USD: NTD | $ 120,486 | 29.980 | $ 3,612,170 |
| CNY: NTD | 56,049 | 4.305 | 241,291 |
| Financial liabilities | | | |
| Monetary items | | | |
| USD: NTD | $ 47,708 | 29.980 | $ 1,430,286 |

| | 2018.12.31 | | |
|---|---|---|---|
| **(Foreign currency: Functional currency)** | Foreign currency (thousand) | Exchange rate | Book value (NT$1,000) |
| Financial assets | | | |
| Monetary items | | | |
| USD: NTD | $ 86,714 | 30.715 | $ 2,663,421 |
| CNY: NTD | 50,279 | 4.472 | 224,848 |
| Financial liabilities | | | |
| Monetary items | | | |
| USD: NTD | $ 37,901 | 30.715 | $ 1,164,129 |

E. The total exchange gains (losses), including realized and unrealized arising from significant foreign exchange variation on the monetary items held by the Group for the years ended December 31, 2019 and 2018 amounted to (NT$45,141) and NT$55,656 respectively.

F. The table below illustrates assets and liabilities denominated in foreign currencies of which the values were materially affected by the exchange rate volatility:

| | 2019 | | |
|---|---|---|---|
| | Sensitivity analysis | | |
| **(Foreign currency: Functional currency)** | Range of change | Effect on (loss) profit | Effected on other comprehensive (loss) profit |
| Financial assets | | | |
| Monetary items | | | |
| USD: NTD | 1% | $ 36,127 | $ - |
| CNY: NTD | 1% | 2,413 | - |
| Financial liabilities | | | |
| Monetary items | | | |
| USD: NTD | 1% | ($ 14,303) | $ - |

| | 2018 | | |
|---|---|---|---|
| | Sensitivity analysis | | |
| **(Foreign currency: Functional currency)** | Range of change | Effect on (loss) profit | Effected on other comprehensive (loss) profit |
| Financial assets | | | |
| Monetary items | | | |
| USD: NTD | 1% | $ 26,634 | $ - |
| CNY: NTD | 1% | 2,248 | - |
| Financial liabilities | | | |
| Monetary items | | | |
| USD: NTD | 1% | ($ 11,641) | $ - |

Price risk

A. The Group's equity instruments exposed to price risk are those financial assets held at fair value through profit or loss and financial assets at fair value through other comprehensive income. To manage its price risk arising from investments in equity instruments, the Company diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Company.

B. The Group primarily invests in equity instruments and open-end funds issued by domestic companies, and the price of such equity instruments is affected by the uncertainty of the future value of the investment target. If the prices of these equity instruments increased or decreased by 10%, while all other factors remained unchanged, the net profit after tax for the year ended December 31, 2019 and 2018 would have increased or decreased by NT$25,259 and NT$30,637, respectively, measured at fair value through profit and loss. The gain or loss of the other comprehensive income which was classified to the equity investment at fair value through other comprehensive income would have increased or decreased by

NT$5,078 and NT$5,930, respectively.

Cash flow and fair value interest rate risk

The Group's interest rate risk is mainly from short-term borrowings and short-term notes. Borrowings with floating interest rates expose the Group to cash flow interest rate risks, of which a majority portion is offset by the cash and cash equivalents held with floating interest rates. Borrowings with floating interest rates expose the Group to cash flow interest rate risks, of which a portion is offset by the cash and cash equivalents held with floating interest rates. The borrowing period of the Group at floating rates is shorter than one year. Therefore, there is no significant risk of interest rate changes after evaluation.

(2) Credit risk

A. The Group's credit risk is the risk of financial loss to the Group due to the failure of the customer or counterparty of the financial instrument to perform its contractual obligations, which are mainly resulted from the failure of the counterparty to pay off accounts receivable payable on the terms of collection, and the contractual cash flow of the asset instrument investment measured at amortized cost, and debt instruments at fair values through profit or loss.

B. The Group manages its credit risk in consideration of the entire Group's concern. Banks and financial institutions only accept organizations with good credit ratings as their trade counterparties. According to the Group's credit policy, each local entity in the Group is responsible for managing and analyzing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are based on internal or external ratings, and the use of credit limits is regularly monitored.

C. The Group adopts the assumptions under IFRS 9, the default occurs when the contract payments are past due over 90 days.

D. The Group adopts the following assumptions under IFRS 9 to judge whether there is any evidence that the credit risk of financial instruments has been significantly increased after initial recognition.

If the contract payments are past due over 30 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.

E. The indicators used by the Group to determine credit impairment on debt instrument investments are as follows:

(A) It becomes probable that the issuer will enter bankruptcy or other financial re-organization due to their financial difficulties;

(B) The disappearance of an active market for that financial asset because of financial difficulties;

(C) Default or delinquency in interest or principal repayments;

(D) Adverse changes in national or regional economic conditions that are expected to cause a default.

F. After recourse procedures, the Group reverses the amount of financial assets that cannot be reasonably expected to be recovered. However, the Group will continue to pursue legal procedures for recourse in order to preserve the rights of claims.

G. The financial assets held by the Group that are measured at amortized cost are time deposits, bonds with repurchase agreements and restricted time deposits held in banks. The credit ratings of these banks are good, and there has been no overdue in the past. Considering that there are no major changes in the overall economic environment, the Group assesses that the risk of credit losses is extremely low and the impact on the financial statements is not significant.

H. For the aging analysis of customers' accounts receivable and collateral information, please refer to Note 6 (4). Considering the Group's right to request collateral or other guarantees for major transaction partners, the Group categorizes customers' accounts receivable according to the characteristics of the collateral. The Group uses a simplified approach to estimate expected credit losses based on the loss rate method. Based on this assessment, the reserve losses to be recognized by the Group as of December 31, 2009 and 2018 were minimal.

I. Changes in loss allowance for accounts receivables using the simplified approach are stated as follows:

| | 2019 | 2018 |
|---|---|---|
| | Accounts receivable | Accounts receivable |
| January 1 | $ 4,289 | $ - |
| Provision of impairment loss | 10,006 | 4,289 |
| December 31 | $ 14,295 | $ 4,289 |

(3) Liquidity risk

A. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. The finance department monitors the cash forecast to ensure that the Group's funds are adequate to finance its operations.

B. The Group's remaining cash in excess of its operating needs is invested in demand deposits bearing interests, time deposits, and marketable securities, all of which are instruments either with appropriate maturity or with sufficient liquidity so as to satisfy the said forecasting and provide sufficient position for dispatching of funds.

C. The table below analyzes the Group's non-derivative financial liabilities and net-settled or gross-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities and to the expected maturity date for derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

| Non-derivative financial liabilities:<br>2019.12.31 | Within 1 year | 1 to 5 years | Over 5 years |
|---|---|---|---|
| Short-term borrowings | $ 274,000 | $ - | $ - |
| Notes payable | 1,981 | - | - |
| Accounts payable | 2,225,909 | - | - |
| Other payables | 462,523 | - | - |
| Lease liabilities | 12,685 | 28,440 | 56,605 |
| Derivative financial liabilities: None. | | | |

| Non-derivative financial liabilities:<br>2018.12.31 | Within 1 year | 1 to 5 years | Over 5 years |
|---|---|---|---|
| Short-term borrowings | $ 370,000 | $ - | $ - |
| Short-term notes and bills payable | 100,000 | - | - |
| Notes payable | 2,745 | - | - |
| Accounts payable | 1,894,371 | - | - |
| Other payables | 506,235 | - | - |
| Derivative financial liabilities: None. | | | |

(III) Fair value information

1. The table below analyzes financial instruments measured at fair value, by valuation method. The different levels have been defined as follows:

   Level I. It refers to the quotation of the same asset or liability in an active market as of the evaluation (before adjustment). A market is regarded active when a market where transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the investment in TWSE/TPEx-listed or emerging shares, beneficiary certificates and debt securities the Group are included in this category.

   Level II. It refers to other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

   Level III. It refers to unobservable inputs for the asset or liability. The fair value of the Group’s equity investment without active market is included in this category.

2. The information relating to the fair value of investment property at cost is provided in Note 6 (9).

3. The book values of the Group's financial instruments not measured at fair value are reasonable approximations of their fair values. These include cash and cash equivalents, time deposits (over three months), notes receivable, accounts receivable, other receivables, refundable deposits, short-term borrowings, notes

payable, notes payable, other payables, lease liabilities (including current and non-current), and guarantee deposits received.

4. The Group categorizes financial and non-financial instruments measured at fair value on the basis of the nature, characteristics, and risks of the assets and liabilities. The related information is as follows:

(I) The Group classifies assets and liabilities on the basis of its nature. Related information is provided below:

| 2019.12.31 | Level I | Level II | Level III | Total |
|---|---|---|---|---|
| Assets | | | | |
| Recurring fair value | | | | |
| Financial assets at fair value through profit and loss | | | | |
| Equity securities | $ 81,109 | $ 2,217 | $ 35,177 | $118,503 |
| Beneficiary certificates | 84,404 | - | - | 84,404 |
| Debt securities | 49,686 | - | - | 49,686 |
| Financial assets at fair value through other comprehensive income | | | | |
| Equity securities | - | - | 50,776 | 50,776 |
| | $215,199 | $ 2,217 | $ 85,953 | $303,369 |

Financial liabilities: None.

| 2018.12.31 | Level I | Level II | Level III | Total |
|---|---|---|---|---|
| Assets | | | | |
| Recurring fair value | | | | |
| Financial assets at fair value through profit and loss | | | | |
| Equity securities | $169,852 | $ 1,388 | $ 6,815 | $178,055 |
| Beneficiary certificates | 81,363 | - | - | 81,363 |
| Debt securities | 46,956 | - | - | 46,956 |
| Financial assets at fair value through other comprehensive income | | | | |
| Equity securities | - | - | 59,300 | 59,300 |
| | $298,171 | $ 1,388 | $ 66,115 | $365,674 |

Financial liabilities: None.

(II) The methods and assumptions the Group used to measure fair value are as follows:

A. The instruments the Group used market quoted prices as their fair values (that is, Level I) are listed below by characteristics:

| | TWSE/TPEx-listed and emerging stocks | Open-end fund |
|---|---|---|
| Market quoted price | Closing price | Net value |

B. Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques or by reference to counterparty quotes. The fair value of financial instruments measured by using valuation techniques can be referred to current fair value of instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods, including calculated by applying model using market information available at the consolidated balance sheet date.

C. Outputs from valuation models are estimates and valuation techniques may not be able to reflect all the relevant factors of the Group's financial and non-financial instruments. Therefore, the estimated value derived using valuation model is adjusted according to additional inputs, for example, model risk or liquidity risk and etc. In accordance with the Group's management policies and relevant control procedures relating to the valuation models used for fair value measurement, management believes adjustment to valuation is necessary in order to reasonably represent the fair value of financial and non-financial instruments at the consolidated balance sheet. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market conditions.

5. For 2019 and 2018, the Group had no transfer between Level I and Level II.

6. The following table presents changes in Level III in 2019 and 2018:

| | Equity securities | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| January 1 | $ | 66,115 | $ | 56,215 |
| Acquisition for the period | | 18,850 | | 59,300 |
| Disposal in the current period | | - | ( | 51,802) |
| Evaluation adjustment | | 988 | | 2,402 |
| December 31 | $ | 85,953 | $ | 66,115 |

7. The financial instrument evaluation team of the Group’s Risk Management Department is responsible for independent fair value verification. The data from an independent source is used to bring the evaluation results close to the market, to confirm that the data sources are independent, reliable, consistent with other resources, and representing executable prices, and regularly calibrate and evaluate the valuation model, performing backtracking tests, updating the input values and information required for the evaluation model, and any other necessary fair value adjustments to ensure that the valuation results are reasonable.

8. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement:

| | 2019.12.31 Fair value | | Valuation technique | Significant unobservable input value | Interval (weighted-average) | Relationship between input value and fair value |
|---|---|---|---|---|---|---|
| Non-derivative equity instruments: | | | | | | |
| Unlisted shares | $ | 20,027 | Comparable company analysis | Discount for lack of marketability | 30% | Lack of market liquidity, the higher the discount, the lower the fair value |
| Unlisted shares | | 50,776 | Comparable company analysis | Discount for lack of marketability | 40% | Lack of market liquidity, the higher the discount, the lower the fair value |
| Unlisted shares | | 15,150 | Recent transaction price | N/A | N/A | N/A |

| | 2018.12.31 Fair value | Valuation technique | Significant unobservable input value | Interval (weighted-average) | Relationship between input value and fair value |
|---|---|---|---|---|---|
| Non-derivative equity instruments: | | | | | |
| Unlisted shares | $ 6,815 | Comparable company analysis | Discount for lack of marketability | 30% | Lack of market liquidity, the higher the discount, the lower the fair value |
| Unlisted shares | 59,300 | Recent transaction price | N/A | N/A | N/A |

9. The Group has carefully assessed the valuation models and assumptions used to measure fair value. However, use of different valuation models or assumptions may result in different measurements. The following is the effect of profit or loss or of other comprehensive income from financial assets categorized within Level III if the inputs used to valuation models have changed:

| | | | 2019.12.31 | | | |
|---|---|---|---|---|---|---|
| | | | Recognized in profit and loss | | Recognized in other comprehensive profit and loss | |
| | Input | Change | Favorable change | Unfavorable change | Favorable change | Unfavorable change |
| Financial assets - equity instrument | Evaluation for lack of marketability | ±10% | $ 858 | ($ 858) | $ 3,384 | ($ 3,384) |

| | | | 2018.12.31 | | | |
|---|---|---|---|---|---|---|
| | | | Recognized in profit and loss | | Recognized in other comprehensive profit and loss | |
| | Input | Change | Favorable change | Unfavorable change | Favorable change | Unfavorable change |
| Financial assets - equity instrument | Evaluation for lack of marketability | ±10% | $ 292 | ($ 292) | $ - | $ - |

## XIII. Supplementary Disclosures

### (I) Information on significant transactions:

1. Financings provided: None.
2. Endorsements/guarantees provided to others: None.
3. Marketable Securities Held at the End of the Period (Excluding investment in Subsidiaries, Associates and Joint Ventures): Please refer to Appendix Table 1.
4. Accumulated to buy or sell the same marketable securities amount to NT$300 million or more than 20% of the paid-up capital: None.
5. Acquisition of individual real estate properties at costs of at least NT$300 million or 20% of the paid-in capital: None.
6. Disposal of individual real estate properties at prices of at least NT$300 million or 20% of the paid-in capital: None.
7. The amount of purchase and sales with related parties amounts to NT$100 million or more than 20% of the paid-up capital: None.
8. Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: None.
9. Derivative financial instrument transactions: None.

10. Significant inter-company transactions during the reporting periods: Please refer to Please refer to Appendix Table 8.

(II) Information on investees

Name of investee companies, location, and other relevant information (excluding investee companies in Mainland China): Please refer to Appendix Table 3 for details.

(III) Information on investments in Mainland China

1. Information on investees in Mainland China: The establishment of Shenzhen and Shanghai branch offices of the Company's investee under equity method, Elite Semiconductor (B.V.I.) Limited has been approved by Investment Commission of the Ministry of Economic Affairs on March 20, 2008 and June 18, 2009, respectively. The Shenzhen office indirectly established by the Company was approved for cancellation by the Investment Commission of the Ministry of Economic Affairs on December 4, 2018.
2. Basic information: Please refer to Appendix Table 4.
3. Significant transactions with investee companies in mainland China, either directly or indirectly through a business at third location: None.

XIV. Operating Segment Information

(I) General information

The Group's business involves one single industry, and the chief operating decision-maker of the Company uses the Group as a whole to evaluate performance and allocate resources when performing performance evaluation and resource allocation. It is identified that the Company shall be the single reporting department.

(II) Segment information

The financial information of reportable segments provided to chief operating decision-maker is as follows:

| | 2019 | 2018 |
|---|---|---|
| Income from external customers | $ 11,983,479 | $ 11,555,124 |
| Segment net profit before tax | $ 576,180 | $ 848,260 |
| | 2019.12.31 | 2018.12.31 |
| Segment assets | $ 10,480,320 | $ 10,289,312 |
| Segment liabilities | $ 3,139,541 | $ 3,044,874 |

The impact of the Group's adoption of IFRS 16 "Leases" on the segment information for the year 2019 is as follows:

| | |
|---|---|
| Increase in depreciation expenses | $ 13,182 |
| Increase in segment assets | $ 86,367 |
| Increase in segment liabilities | $ 86,887 |

(III) Reconciliation to the segment profit/loss: None.

(IV) Information on products and services

The Group's net income related to the integrated circuit, electronic materials and other relevant fields are NT$11,983,479 and NT$11,555,124 in 2019 and 2018, respectively.

(V) Information by areas

Geographical information for the years ended December 31, 2019 and 2018 is as follows:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Revenue | Noncurrent assets | Revenue | Noncurrent assets |
| Domestic | $ 5,153,908 | $ 874,235 | $ 5,025,713 | $ 1,008,630 |
| Asia | 6,643,377 | - | 6,308,051 | - |
| Others | 186,194 | 14,587 | 221,360 | 2,907 |
| Total | $ 11,983,479 | $ 888,822 | $ 11,555,124 | $ 1,011,537 |

(VI) Important customer information

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Revenue | Segment | Revenue | Segment |
| Company A | $ 2,724,676 | The whole Group | $ 2,652,618 | The whole Group |

Elite Semiconductor Memory Technology Inc. and its subsidiaries
Marketable securities held – end of year
Dec. 31, 2019

Table 1

Unit: NTD thousand
(Unless otherwise indicated)

| Holding company | Types and names of securities | Relationship with the securities issuer | Accounting titles in statements | End of the period: Number of shares | End of the period: Book value (Note) | End of the period: Ratio of shareholding | End of the period: Fair value | Remarks |
|---|---|---|---|---|---|---|---|---|
| Elite Semiconductor Memory Technology Inc. | Shares of Arima Lasers Corp. | Company's subsidiary as this company's director | Financial assets at fair value through profit and loss | 3,455,000 | $ 62,881 | 13.81 | $ 62,881 | |
| Elite Semiconductor Memory Technology Inc. | Shares of King Yuan Electronics Co., Ltd. | None | Financial assets at fair value through profit and loss | 10,000 | 376 | 0.00 | 376 | |
| Elite Semiconductor Memory Technology Inc. | HSBC FRN Perpetual Bonds | None | Financial assets at fair value through profit and loss | 1,000,000 | 23,285 | N/A | 23,285 | |
| Elite Semiconductor Memory Technology Inc. | ANZ FRN Perpetual Bonds | None | Financial assets at fair value through profit and loss | 500,000 | 10,811 | N/A | 10,811 | |
| Elite Semiconductor Memory Technology Inc. | BGF Renminbi Bond Fund | None | Financial assets at fair value through profit and loss | 127,986 | 53,488 | N/A | 53,488 | |
| Elite Semiconductor Memory Technology Inc. | Preference share of Turning Point Lasers Ltd. | None | Financial assets at fair value through other comprehensive income | 1,000,000 | 25,388 | 8.06 | 25,388 | |
| Elite Investment Services Ltd. | USD preference share - HSBC bonds | None | Financial assets at fair value through profit and loss | 20,000 | 15,590 | N/A | 15,590 | |
| Elite Investment Services Ltd. | HSBC RQFII China Fixed Income Fund | None | Financial assets at fair value through profit and loss | 600,000 | 30,916 | N/A | 30,916 | |
| Chang Feng Investment Co., Ltd. | Shares of King Yuan Electronics Co., Ltd. | None | Financial assets at fair value through profit and loss | 10,000 | 376 | 0.00 | 376 | |
| Chang Feng Investment Co., Ltd. | Shares of AP Memory Technology Corp. | None | Financial assets at fair value through profit and loss | 11,124 | 969 | 0.02 | 969 | |
| Chang Feng Investment Co., Ltd. | Shares of Arima Lasers Corp. | None | Financial assets at fair value through profit and loss | 907,000 | 16,507 | 3.22 | 16,507 | |
| Chang Feng Investment Co., Ltd. | Shares of Ushine Photonics Corp. | None | Financial assets at fair value through profit and loss | 115,519 | 924 | 0.41 | 924 | |
| Chang Feng Investment Co., Ltd. | Shares of Brightek Optoelectric Co., Ltd. | None | Financial assets at fair value through profit and loss | 90,601 | 1,293 | 0.15 | 1,293 | |
| Chang Feng Investment Co., Ltd. | Shares of M3 Technology Inc. | None | Financial assets at fair value through profit and loss | 600,000 | 11,007 | 1.63 | 11,007 | |
| Chang Feng Investment Co., Ltd. | Shares of M2 Communication Inc. | None | Financial assets at fair value through profit and loss | 2,000,000 | 9,020 | 7.89 | 9,020 | |
| Chang Feng Investment Co., Ltd. | Powerchip Semiconductor Manufacturing Corporation | None | Financial assets at fair value through profit and loss | 1,500,000 | 15,150 | 0.05 | 15,150 | |
| Chang Feng Investment Co., Ltd. | Preference shares of Turning Point Lasers Ltd. | None | Financial assets at fair value through other comprehensive income | 1,000,000 | 25,388 | 8.06 | 25,388 | |
| Jie Yong Investment Co., Ltd. | Shares of Elite Semiconductor Memory Technology Inc. | Parent company | Financial assets at fair value through other comprehensive income | 13,439,000 | 522,777 | 4.70 | 522,777 | |

Note: Including financial asset evaluation adjustment and cumulative conversion adjustment

Elite Semiconductor Memory Technology Inc. and its subsidiaries

Significant inter-company transactions during the reporting periods.

January 1 to December 31, 2019

Table 2

Unit: NTD thousand

(Unless otherwise indicated)

| No. (Note 1) | Trader's name | Counterparty | Relationship with the trader (Note 2) | Transactions | | | |
|---|---|---|---|---|---|---|---|
| | | | | Title | Amount | Terms and conditions | Percentage in consolidated total revenue or total assets (Note 3) |
| 0 | Elite Semiconductor Memory Technology Inc. | Eon Silicon Solutions, Inc. USA | (1) | Research and development expenses | $ 65,336 | Note 4 | 0.55% |
| 0 | Elite Semiconductor Memory Technology Inc. | Elite Memory Technology Inc. | (1) | Other revenue | 24,000 | Note 4 | 0.20% |
| 0 | Elite Semiconductor Memory Technology Inc. | Elite Silicon Technology Inc. | (1) | Other revenue | 1,177 | Note 4 | 0.01% |

Note 1: The information on transactions between parent company and subsidiaries shall be numbered and noted in the following manner in the box of numbers:

(1) The parent company is coded 0.

(2) The subsidiaries are coded from "1" in the order presented in the table above.

Note 2: Relations with counterparty can be any one of the following three types:

(1) Parent company to its subsidiary.

(2) Subsidiary to its parent company.

(3) Subsidiary to another subsidiary.

Note 3: the ratio of the transaction amount to the combined total revenue or total assets, if it is an item of assets and liabilities, shall be calculated by the ratio of the ending balance to the combined total assets; if it is a profit or loss item, it shall be calculated by the ratio the cumulative amount to the combined total revenue.

Note 4: The transaction terms are decided by the two parties through negotiation.

Elite Semiconductor Memory Technology Inc. and its subsidiaries
Name of investee companies, location, and other relevant information (excluding investee companies in Mainland China)
January 1 to December 31, 2019

Table 3

Unit: NTD thousand
(Unless otherwise indicated)

| | | | | Original investment amount | | Ending shareholding | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Investor | Name of investee | Location | Principal business | End of the period | End of last year | Number of shares | Percentage | Book value | Net income (loss) of the investee | Investment income (loss) recognized by the Company | Remarks |
| Elite Semiconductor Memory Technology Inc. | Elite Memory Technology Inc. | Taiwan | R&D, production, sales and relevant consulting service of integrated circuit | $ 272 | $ 272 | 100,000 | 100 | $ 30,179 | $ 17,396 | $ 17,396 | |
| Elite Semiconductor Memory Technology Inc. | Chang Feng Investment Co., Ltd. | Taiwan | General Investment | 500,000 | 500,000 | 50,000,000 | 100 | 394,670 | ( 12,168) | ( 12,168) | |
| Elite Semiconductor Memory Technology Inc. | CML Inc. | British Virgin Islands | General Investment | - | 122,215 | - | - | - | ( 3,456) | ( 3,456) | Note 7 |
| Elite Semiconductor Memory Technology Inc. | Elite Investment Services Ltd. | British Virgin Islands | General Investment | 449,700 | 449,700 | 15 | 100 | 627,721 | ( 9,837) | ( 9,837) | |
| Elite Semiconductor Memory Technology Inc. | Elite Semiconductor (B.V.I.) Ltd. | British Virgin Islands | General Investment | 168,401 | 149,900 | 1,000 | 100 | 26,627 | ( 29,482) | ( 20,816) | Note 3 |
| Elite Semiconductor Memory Technology Inc. | Jie Yong Investment Co., Ltd. | Taiwan | General Investment | 270,000 | 270,000 | 3,600,000 | 41.86 | 147,009 | 19,868 | ( 121) | |
| Elite Semiconductor Memory Technology Inc. | Eon Silicon Solution (Samoa) Inc. | Samoa | Investigation and research of business situation and industrial technology | - | 1,755 | - | - | - | ( 372) | ( 372) | Note 4 |
| Elite Semiconductor Memory Technology Inc. | Eon Silicon Solutions, Inc. USA | The US | Design, development and testing of products | 13,304 | 13,304 | 200,000 | 100 | ( 1,170) | ( 883) | ( 883) | |
| Chang Feng Investment Co., Ltd. | 3R Semiconductor Technology Inc. | Taiwan | Product design, wholesale and retail of electronic materials, manufacturing of electronic components, information software services and international trade | 69,407 | 60,000 | 10,000,000 | 100 | 22,520 | ( 600) | ( 600) | |
| Chang Feng Investment Co., Ltd. | Elite Silicon Technology Inc. | Taiwan | Product design, wholesale and retail of electronic materials, manufacturing of electronic components, information software services and international trade | 59,288 | 59,288 | 6,031,836 | 79.37 | 550 | ( 16,217) | ( 12,817) | |
| Chang Feng Investment Co., Ltd. | Canyon Semiconductor Inc. | Taiwan | International trade, electronic component manufacturing, product design, and information software services | 80,337 | 77,950 | 8,350,000 | 40.93 | 33,210 | ( 35,589) | ( 13,194) | Note 2 |

Elite Semiconductor Memory Technology Inc. and its subsidiaries
Name of investee companies, location, and other relevant information (excluding investee companies in Mainland China)
January 1 to December 31, 2019

Table 3

Unit: NTD thousand
(Unless otherwise indicated)

| Investor | Name of investee | Location | Principal business | Original investment amount | | Ending shareholding | | | Net income (loss) of the investee | Recognized investment income (loss) | Remarks |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | End of the period | End of last year | Number of shares | Percentage | Book value | | | |
| Chang Feng Investment Co., Ltd. | Elite Innovation Japan Ltd. | Japan | Product design, wholesale and retail of electronic materials, manufacturing of electronic components, information software services and international trade | 2,305 | - | 200 | 100 | 2,080 | 22 | ( 226) | Note 5 |
| CML Inc. | Elite Innovation (B.V.I) Ltd. | British Virgin Islands | General Investment | $ - | $ 93,180 | - | - | $ - | ($ 3,275) | ($ 3,275) | Note 6 |
| Elite Innovation (B.V.I) Ltd. | Elite Innovation Japan Ltd. | Japan | Product design, wholesale and retail of electronic materials, manufacturing of electronic components, information software services and international trade | - | 2,886 | - | - | - | 22 | 204 | Note 5 and 6 |
| Elite Investment Services Ltd. | Elite Semiconductor (B.V.I.) Ltd. | British Virgin Islands | General Investment | - | 155,300 | - | - | - | ( 29,482) | ( 8,666) | Note 3 |

Note 1: The foreign currency investment amount is calculated based on the exchange rate on December 31, 2019.

Note 2: Since Chang Feng Investment Co., Ltd. did not participate in Canyon Semiconductor's capital increase with the share issuance by cash on March 4, 2019, the shareholding ratio of Chang Feng Investment decreased from 77.95% to 38.21%. In addition, Chang Feng Investment Co., Ltd. purchased shares of Canyon Semiconductor in December 2019, increasing its percentage of shareholding from 38.21% to 40.93%.

Note 3: Elite Investment Services Ltd. sold its 50% equity in Elite Semiconductor (B.V.I.) Ltd. to Elite Semiconductor Memory Technology Inc. on June 27, 2019.

Note 4: Eon Silicon Solution (Samoa) Inc. completed the dissolution and liquidation on September 2, 2019, and sold its 100% equity in Elite Semiconductor Memory Technology (Shenzhen) Inc. to Chang Feng Investment Ltd.

Note 5: Elite Innovation (B.V.I) Ltd. sold its 100% equity in Elite Innovation Japan Ltd. to Chang Feng Investment Ltd. on September 17, 2019.

Note 6: Elite Innovation (B.V.I) Ltd. completed the liquidation procedures in September 2019.

Note 7: CML Inc. completed the liquidation procedures in December 2019.

Elite Semiconductor Memory Technology Inc. and its Subsidiaries
Information regarding investment in the territory of Mainland China - Basic information
January 1 to December 31, 2019

Table 4

Unit: NTD thousand
(Unless otherwise indicated)

| Names of investees in mainland China | Principal business | Paid-in capital (Note 5) | Investment methods (Note 1) | Accumulated amount of investment remitted from Taiwan at beginning | Amount of investment remitted or recovered in current period: Outward remittance | Amount of investment remitted or recovered in current period: Recover | Accumulated amount of investment remitted from Taiwan at ending | Net income (loss) of the investee | The Company's directly or indirectly invested shareholding | Investment income (loss) recognized by the Company (Note 2) | Ending book value of investment | The investment income received at the end of the current period | Remarks |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Elite Semiconductor Memory Technology (Shenzhen) Inc. | Technical consultation and service, after-sales service | $ 6,219 | (2) | $ - | $ - | $ - | $ - | $ 317 | 100 | $ 317 | $ 1,918 | $ - | Note 4 and 6 |
| Yi Xi Ge Ma Technology Co., Ltd. | R&D of products | - | (1) | - | - | - | - | - | - | - | - | - | Note 4 and 5 |
| Elite Semiconductor Microelectronics (Shanghai) Technology Inc. | Product design, wholesale and retail of electronic materials, information software services and international trade | - | (1) | - | - | - | - | - | - | - | - | - | Note 7 |

| Company name | Accumulated investment from Taiwan to Mainland China at ending | Amount of investment approved by Investment Commission of MOEA (Note 6) | Investment amount approved by the Investment Commission MOEAIC |
|---|---|---|---|
| Elite Semiconductor Memory Technology Inc. | $ - | $ 50 | $ 4,476,876 |

Note 1: The methods for engaging in investment in mainland China include the three following types:

(1) Direct investment in mainland China.

(2) Reinvest in mainland China through companies in a third location

(3) Others.

Note 2: The profit or loss on investment was recognized in the investee's financial statements audited by CPAs.

Note 3: The numbers related to this table are expressed in NTD.

Note 4: The paid-in capital is calculated based on the exchange rate on December 31, 2019.

Due to the merger with Eon Silicon Solution Inc., the Company succeeded the investees of Eon Silicon Solution Inc. The investment amount approved by the Investment Commission of MOEA of the former Eon Silicon Solution Inc. was US$5,231 thousand.

The cancellation of this investment has been approved on Aug. 7, 2019. On August 7, 2019, the Company obtained the revised investment approved by the Investment Commission of MOEA in Yi Xi Ge Ma Technology Co., Ltd. for US$1. The Company has sold all its shareholdings in Yi Xi Ge Ma Technology Co., Ltd. in September 2019, was approved by Investment Commission of MOEA on Feb. 2, 2020 and completed the cancellation of the company.

Note 6: On August 7, 2019, the Company obtained the revised investment approved by the Investment Commission of MOEA for US$1,679.

Note 7: Elite Semiconductor Microelectronics (Shanghai) Technology Inc. was established and registered on November 27, 2019. It has not applied for investment to the Investment Commission of the Ministry of Economic Affairs, and it has not yet started operation since December 31, 2019.

V. Financial Report of the Company audited and attested by CPAs for the most recent financial year.

(English Translation of a Report Originally Issued in Chinese)

Independent Auditors' Report

( PARENT COMPANY ONLY FINANCIAL STATEMENT )

(2020)Finance-Audit-Letter No.19003273

To Elite Semiconductor Memory Technology Inc.,

**Audit Opinions**

We have audited the Individual Balance Sheet as of December 31, 2019 and 2018 and Individual Income Statement, Individual Statement of Changes in Equity, Individual Cash Flow Statement, and Notes to the Individual Financial Statements for the years then ended (including the summary of major accounting policies) for Elite Semiconductor Memory Technology Inc. (hereinafter referred to as "the Company").

In our opinion, the accompanying individual financial statements present fairly, in all material respects, the financial position of the Company as of 2019 and December 31, 2018, 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 Opinions**

We conducted our audit in accordance with the Regulations Governing Auditing and Attestation of Individual Financial Statements by Certified Public Accountants and Generally Accepted Auditing Standards (GAAS) of the Republic of China. Our responsibility under the above-mentioned regulations will be further explained in the section titled "The Accountant's Responsibility in Auditing the Individual Financial Statements". We are independent of the Company as required by the Code of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled other responsibilities as stipulated by the Code. Based on our audits and the reports of other independent accountants, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

**Key Audit Matters**

Key audit matters refer to matters that, in our professional judgment, were of most significance in our audit of the Individual Financial Statement of the Company for the year ended December 31, 2019. These matters were addressed in the content of our audit of the individual financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on those matters.

Key audit matters for the Company are stated as follows:

**Impairment of goodwill**

**<u>Description</u>**

The Group merged with Eon Silicon Solution Inc. on June 8, 2016 and generated goodwill of NTD 80,758 thousand. The amount of goodwill impairment loss recognized by the Group in 2019 was

NTD 12,057 thousand. For the accounting policy of goodwill impairment, please refer to Note 4(20) - Impairment of Non-Financial Assets attached to the individual financial statements. For the accounting estimates and assumptions of the goodwill impairment assessment, please refer to Note 5(2) attached to the individual financial statements. For the description of goodwill impairment assessment, please refer to Note 6(11) attached to the individual financial statements. The Company uses the future estimated cash flow of the cash-generating unit to which the goodwill belongs, and uses an appropriate discount rate to measure the recoverable amount of the cash-generating unit, as a basis for assessing whether the goodwill is impaired. As the goodwill impairment assessment uses assumptions including discount rates and financial forecasts for the next five years, such matter involves professional judgments that are uncertain. Therefore, we considered the goodwill impairment as a key audit matter this year.

**How the matter was addressed in our audit**

The audit procedures that we performed for the assessment of goodwill impairment include: understanding and evaluating the management ’s process for estimating future cash flows; confirming the cash flow information for the next five years listed in the evaluation model is approved by the management; the reasonableness of major assumptions such as growth rate and discount rate, which includes 1. Comparison of historical results, economic and industry forecast reports used for projecting growth rate. 2. Checking the capital cost assumptions cash-generating units for the weighted average capital cost discount rate. 3. Evaluating the sensitivity analysis of the management with different expected growth rates and discount rates to confirm that the management has properly dealt with the possible impact of the estimated uncertainty.

**Allowance for inventory valuation loss**

**Description**

For accounting policies regarding inventory evaluation, please refer to Note 4(13) attached to the individual financial statements. For accounting estimates and assumptions of inventory evaluation, please refer to Note 5(2) attached to the individual financial statements. For the explanation of inventory accounting items, please refer to Note 6(5) attached to the individual financial statements. On December 31, 2019, the balance of inventories and allowance for inventory valuation losses amounted to NTD 5,137,286 thousand and NTD 168,762 thousand, respectively.

The main business items of the Company are research, development, production, manufacturing and sales of integrated circuits. The inventory of the Company is measured by the lower of cost and net realizable value. For the inventory aged over a period of time and individually identified as obsolete, the net realizable value is estimated based on the historical information of the de-inventorization process. As the determination of the net realizable value of the inventory aged over a certain period and obsolete inventory involves manual judgment and has uncertainties in estimation when performing the evaluation, therefore, we considered the allowance for inventory valuation losses as a key audit matter this year.

**How the matter was addressed in our audit**

The audit procedures that we performed for the key audit items listed above include the understanding of the Company operation and nature of the industry, assessing the reasonableness of policies and procedures used to recognize the allowance for inventory impairment loss, including the historical source information on the degree of de-inventorization, the reasonableness of judging aged and obsolete inventory items, examining the appropriateness of relevant information of the inventory aging report used by the Company to confirm the consistency between the report information and its policy, spot-checking inventory material numbers to verify the net realizable value of inventory, and obtaining the management's relevant assessment and supporting documents for individually identified obsolete or damaged inventory items, and then evaluating the reasonableness of the Company's allowance for inventory valuation losses.

**Responsibility of the Management and the Governing Body for the Parent Company Only Financial Statements**

The responsibility of the management is to have the individual financial statements presented fairly, in all material respects, in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Firms”. Also, maintain the necessary internal controls related to the individual financial statements to ensure that the individual financial statements are free of any material misstatement arising from fraud or errors.

In preparing the Individual Financial Statements, the responsibility of management includes assessing the Company's ability to continue as a going concern, disclosing going concern related matters, as well as adopting going concern basis of accounting unless the management intends to liquidate the Company or terminate the business, or has no realistic alternative but to do so.

The governing bodies of the Company (including the Audit Committee) have the responsibility to oversee the procedures for financial reporting.

**Responsibilities of Certified Public Accountants for Auditing Individual Financial Statements**

Our objectives are to obtain reasonable assurance about whether the individual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue and auditor’s report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ROC GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error. If fraud or errors are considered materials, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these individual financial statements.

As part of an audit in accordance with the accounting principles generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also perform the following works:

1. Identify and assess the risks of material misstatement of the individual financial statements, whether due to fraud or error, design, and perform audit procedures responsive risks, and obtain evidence that is sufficient and appropriate to provide a basis of 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 controls 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 internal controls of the Company and its subsidiaries.
3. Evaluate the appropriateness of accounting policies used and the reasonability of accounting estimates and related disclosures made by the management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, determine 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 individual financial statements or, if such disclosures are inappropriate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.
5. Evaluate the overall presentation, structure, and content of the individual statements, including related notes, whether the individual statements represent the underlying transactions and events in a matter that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence on the financial information of business entities within the Company in order to express an opinion on the individual financial statements. We are responsible for guiding, supervising, and implementing the audit, and is also responsible for forming an opinion on the audit of the Company.

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

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

From the matters communicated with the governing body, we determined the key audit matters for the Company's individual financial statements for the year ended 2019. 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 communications.

Ya Huei Cheng

Danie Lee

Pricewaterhouse Coopers , Taiwan

March 20, 2020

(English Translation of a Report Originally Issued in Chinese)

# Elite Semiconductor Memory Technology Inc.

## Individual Balance Sheet

### As of December 31, 2019 and 2018

Unit: NTD thousand

| | Assets | Note | December 31, 2019 Amount | % | December 31, 2018 Amount | % |
|---|---|---|---|---|---|---|
| | **Current assets** | | | | | |
| 1100 | Cash and cash equivalents | 6(1) | $ 1,817,377 | 17 | $ 829,308 | 8 |
| 1110 | Financial assets at fair value through profit or loss - current | 6(2) | 150,841 | 2 | 210,901 | 2 |
| 1136 | Financial assets measured at cost after amortization - current | | 140,906 | 1 | - | - |
| 1150 | Net notes receivable | | 34 | - | - | - |
| 1170 | Net accounts receivable | 6(4) | 1,160,173 | 11 | 1,059,404 | 10 |
| 1200 | Other receivables | 7(2) | 79,745 | 1 | 71,929 | 1 |
| 130X | Inventories | 6(5) | 4,968,524 | 48 | 5,764,531 | 56 |
| 1410 | Prepayments | | 21,863 | - | 74,569 | 1 |
| 1470 | Other current assets | 8 | 6,602 | - | 2,759 | - |
| 11XX | **Total current assets** | | 8,346,065 | 80 | 8,013,401 | 78 |
| | **Noncurrent assets** | | | | | |
| 1517 | Financial assets at fair value through other comprehensive income - noncurrent | 6(3) | 25,388 | - | 29,650 | - |
| 1550 | Investments accounted for using equity method | 6(6) | 1,225,036 | 12 | 1,278,138 | 12 |
| 1600 | Property, plant, and equipment | 6(7) | 695,067 | 6 | 792,823 | 8 |
| 1755 | Right-of-use assets | | 72,798 | 1 | - | - |
| 1760 | Net Investment Property | 6(9) | 18,671 | - | 19,641 | - |
| 1780 | Intangible assets | 6(10)(11) | 81,177 | 1 | 132,628 | 1 |
| 1840 | Deferred income tax assets | 6(26) | 4,174 | - | 5,174 | - |
| 1900 | Other noncurrent assets | | 10,357 | - | 63,693 | 1 |
| 15XX | **Total noncurrent assets** | | 2,132,668 | 20 | 2,321,747 | 22 |
| 1XXX | **Total assets** | | $ 10,478,733 | 100 | $ 10,335,148 | 100 |

(Continue on next page)

(English Translation of a Report Originally Issued in Chinese)

# Elite Semiconductor Memory Technology Inc.

## Individual Balance Sheet

### As of December 31, 2019 and 2018

Unit: NTD thousand

| | Liabilities and equity | Note | December 31, 2019 Amount | % | December 31, 2018 Amount | % |
|---|---|---|---|---|---|---|
| | **Current liabilities** | | | | | |
| 2100 | Short-term borrowings | 6(12) | $ 270,000 | 3 | $ 370,000 | 4 |
| 2110 | Short-term notes and bills payable | | - | - | 99,932 | 1 |
| 2130 | Contract liabilities - current | 6(20) | 3,949 | - | 2,440 | - |
| 2150 | Notes payable | | 1,890 | - | 1,800 | - |
| 2170 | Accounts payable | | 2,134,680 | 20 | 1,850,943 | 18 |
| 2200 | Other payables | 6(13) | 450,874 | 4 | 487,212 | 5 |
| 2230 | Current tax liability | | 39,960 | 1 | 130,106 | 1 |
| 2280 | Lease liabilities - current | | 6,695 | - | - | - |
| 2300 | Other current liabilities | | 4,325 | - | 3,817 | - |
| 21XX | **Total of current liabilities** | | 2,912,373 | 28 | 2,946,250 | 29 |
| | **Noncurrent liabilities** | | | | | |
| 2550 | Liability reserve - noncurrent | | 15,083 | - | 13,791 | - |
| 2570 | Deferred tax liabilities | 6(26) | 4,731 | - | 1,078 | - |
| 2580 | Lease liabilities - non-current | | 66,540 | 1 | - | - |
| 2600 | Other noncurrent liabilities | 6(14) | 18,546 | - | 18,681 | - |
| 25XX | **Total noncurrent liabilities** | | 104,900 | 1 | 33,550 | - |
| 2XXX | **Total liabilities** | | 3,017,273 | 29 | 2,979,800 | 29 |
| | **equity interests** | | | | | |
| | **Share capital** | 6(16) | | | | |
| 3110 | Common stock | | 2,857,589 | 27 | 2,857,589 | 28 |
| | **Capital surplus** | 6(17) | | | | |
| 3200 | Capital surplus | | 104,305 | 1 | 59,072 | - |
| | **Retained earnings** | 6(18) | | | | |
| 3310 | Legal reserve | | 1,359,235 | 13 | 1,288,584 | 12 |
| 3320 | Special reserve | | - | - | 194,377 | 2 |
| 3350 | Undistributed earnings | | 3,286,176 | 31 | 3,093,047 | 30 |
| | **Other equities** | 6(19) | | | | |
| 3400 | Other equities | | ( 8,524) | - | - | - |
| 3500 | Treasury stock | 6(16) | ( 137,321) | ( 1) | ( 137,321) | ( 1) |
| 3XXX | **Total equity** | | 7,461,460 | 71 | 7,355,348 | 71 |
| | **Significant contingent liabilities and unrecognized contractual commitments** | 9 | | | | |
| | **Significant events after the balance sheet date** | XI | | | | |
| 3X2X | **Total liabilities and equity** | | $ 10,478,733 | 100 | $ 10,335,148 | 100 |

The accompanying notes are an integral part of these individual financial statements.

Chairman: Hsing-Hai Chen Manager: Ming-Chien Chang Accounting Supervisor: Candy Chu

(English Translation of a Report Originally Issued in Chinese)

Elite Semiconductor Memory Technology Inc.

Individual Income Statement

As of December 31, 2019 and 2018

Unit: NTD thousand
(EPS in NT$)

| | Items | Note | 2019 Amount | 2019 % | 2018 Amount | 2018 % |
|---|---|---|---|---|---|---|
| 4000 | **Operating income** | 6(19) and 7 (2) | $ 11,964,770 | 100 | $ 11,491,609 | 100 |
| 5000 | **Operating costs** | 6(5)(23) (24) | ( 10,219,721) | ( 85) | ( 9,438,357) | ( 82) |
| 5900 | **Gross profit** | | 1,745,049 | 15 | 2,053,252 | 18 |
| 5950 | **Net operating gross profit** | | 1,745,049 | 15 | 2,053,252 | 18 |
| | **Operating expenses** | 6(23) (24) | | | | |
| 6100 | Marketing expenses | | ( 200,427) | ( 2) | ( 184,065) | ( 2) |
| 6200 | Administrative expenses | | ( 228,753) | ( 2) | ( 235,832) | ( 2) |
| 6300 | Research and development expenses | | ( 726,964) | ( 6) | ( 773,145) | ( 7) |
| 6450 | Expected credit impairment loss | 12(2) | ( 10,006) | - | ( 4,289) | - |
| 6000 | **Total operating expenses** | | ( 1,166,150) | ( 10) | ( 1,197,331) | ( 11) |
| 6900 | **Operating income** | | 578,899 | 5 | 855,921 | 7 |
| | **Non-operating revenues and expenses** | | | | | |
| 7010 | Other revenue | 6(20) and 7 (2) | 78,697 | 1 | 77,272 | 1 |
| 7020 | Other gains or losses | 6(21) | ( 55,191) | ( 1) | ( 25,895) | - |
| 7050 | Financial costs | 6(22) | ( 8,715) | - | ( 4,881) | - |
| 7070 | Share of other gains (losses) of subsidiaries, associates and joint ventures, accounted for using equity method | 6(6) | ( 30,257) | - | ( 66,626) | ( 1) |
| 7000 | **Total non-operating revenues and expenses** | | ( 15,466) | - | ( 20,130) | - |
| 7900 | **Profit before tax** | | 563,433 | 5 | 835,791 | 7 |
| 7950 | Income tax expenses | 6(25) | ( 66,028) | ( 1) | ( 129,283) | ( 1) |
| 8200 | **Net profit of current period** | | $ 497,405 | 4 | $ 706,508 | 6 |
| | **Other comprehensive income - net** | | | | | |
| | **Items not reclassified to profit or loss** | | | | | |
| 8311 | Remeasurements of the defined benefit plan | 6(14) | $ 636 | - | $ 337 | - |
| 8316 | Unrealized gain(loss) on valuation of equity instruments measured at fair value through other comprehensive income | 6(3) | ( 4,262) | - | - | - |
| 8330 | Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method - not reclassified to income | | ( 4,262) | - | - | - |
| 8300 | **Other comprehensive income - net** | | ($ 7,888) | - | $ 337 | - |
| 8500 | **Total comprehensive income of current period** | | $ 489,517 | 4 | $ 706,845 | 6 |
| | **Basic earnings per share** | | | | | |
| 9750 | **Current period net profit** | | $ 1.78 | | $ 2.52 | |
| | **Diluted earnings per share** | | | | | |
| 9850 | **Diluted earnings per share** | | $ 1.77 | | $ 2.51 | |

The accompanying notes are an integral part of these individual financial statements.

Chairman: Hsing-Hai Chen Manager: Ming-Chien Chang Accounting Supervisor: Candy Chu

(English Translation of a Report Originally Issued in Chinese)

Elite Semiconductor Memory Technology Inc.

Individual Statement of Changes in Equity

As of December 31, 2019 and 2018

Unit: NTD thousand

| | | | | Retained earnings | | | Other equities | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Note | Common stock | Capital surplus - premium | Legal reserve | Special reserve | Undistributed earnings | Unrealized valuation gains or loss on financial assets at fair value through other comprehensive income | Unrealized gains or losses on available-for-sale financial assets | Treasury stock | Total equity |
| 2018 | | | | | | | | | | |
| Balance as of January 1, 2018 | | $ 2,857,589 | $ 116,645 | $ 1,202,067 | $ | $ 3,432,991 | $ - | ( $ 194,377 ) | ( $ 137,321 ) | $ 7,277,594 |
| Effect of retrospective application and retrospective restatement | | - | - | - | - | ( 194,377 ) | - | 194,377 | - | - |
| Adjusted balance as of January 1, 2018 | | 2,857,589 | 116,645 | 1,202,067 | - | 3,238,614 | - | - | ( 137,321 ) | 7,277,594 |
| Net profit of current period | | - | - | - | - | 706,508 | - | - | - | 706,508 |
| Other comprehensive income (loss) | | - | - | - | - | 337 | - | - | - | 337 |
| Total comprehensive income of current period | | - | - | - | - | 706,845 | - | - | - | 706,845 |
| Distribution of cash dividends from capital surplus | 6(17)(18) | - | ( 68,929 ) | - | - | - | - | - | - | ( 68,929 ) |
| Surplus appropriation and allocation of 2017 | 6(18) | | | | | | | | | |
| Special reserve | | - | - | - | 194,377 | ( 194,377 ) | - | - | - | - |
| Legal reserve | | - | - | 86,517 | - | ( 86,517 ) | - | - | - | - |
| Cash dividends from capital surplus | | - | - | - | - | ( 571,518 ) | - | - | - | ( 571,518 ) |
| Recognition of effects from all equity changes in subsidiaries - cash dividends distribution of subsidiaries | 6(17) | - | 1,146 | - | - | - | - | - | - | 1,146 |
| Recognition of effects from all equity changes in subsidiaries - effects of noncontrolling equity obtained by subsidiaries | 6(17) | - | ( 69 ) | - | - | - | - | - | - | ( 69 ) |
| The changes in the net value of shares issued by subsidiaries not recognized in proportion to the shareholding | 6(17) | - | ( 6,117 ) | - | - | - | - | - | - | ( 6,117 ) |
| Adjustment to surplus reserve from dividends paid to subsidiary | 6(17) | - | 12,608 | - | - | - | - | - | - | 12,608 |
| Dividends that are not collected before the designated date shall be transferred to capital surplus. | 6(17) | - | 3,788 | - | - | - | - | - | - | 3,788 |
| Balance as of December 31, 2018 | | $ 2,857,589 | $ 59,072 | $ 1,288,584 | $ 194,377 | $ 3,093,047 | $ - | $ | ( $ 137,321 ) | $ 7,355,348 |
| 2019 | | | | | | | | | | |
| Balance as of January 1, 2019 | | $ 2,857,589 | $ 59,072 | $ 1,288,584 | $ 194,377 | $ 3,093,047 | $ - | $ | ( $ 137,321 ) | $ 7,355,348 |
| Net profit of current period | | - | - | - | - | 497,405 | - | - | - | 497,405 |
| Other comprehensive income | | - | - | - | - | 636 | ( 8,524 ) | - | - | ( 7,888 ) |
| Total comprehensive income of current period | | - | - | - | - | 498,041 | ( 8,524 ) | - | - | 489,517 |
| Annual appropriation of net income and allocation of the year 2018 | 6(18) | | | | | | | | | |
| Legal reserve | | - | - | 70,651 | - | ( 70,651 ) | - | - | - | - |
| Cash dividends from capital surplus | | - | - | - | - | ( 428,638 ) | - | - | - | ( 428,638 ) |
| Special reserve reversal | | - | - | - | ( 194,377 ) | 194,377 | - | - | - | - |
| Recognition of effects from all equity changes in subsidiaries - cash dividends distribution of subsidiaries | 6(17) | - | 1,146 | - | - | - | - | - | - | 1,146 |
| Disposal of subsidiaries | 6(17) | - | 35,475 | - | - | - | - | - | - | 35,475 |
| Adjustment to surplus reserve from dividends paid to subsidiary | 6(17) | - | 8,438 | - | - | - | - | - | - | 8,438 |
| Changes in equity of affiliated companies joint ventures accounted for using equity method | 6(17) | - | 180 | - | - | - | - | - | - | 180 |
| Dividends that are not collected before the designated date shall be transferred to capital surplus. | 6(17) | - | 39 | - | - | - | - | - | - | 39 |
| Adjustment for dividends that are not collected before the designated date | 6(17) | - | ( 45 ) | - | - | - | - | - | - | ( 45 ) |
| Balance as of December 31, 2019 | | $ 2,857,589 | $ 104,305 | $ 1,359,235 | $ | $ 3,286,176 | ( $ 8,524 ) | $ | ( $ 137,321 ) | $ 7,461,460 |

The accompanying notes are an integral part of these individual financial statements.

Chairman: Hsing-Hai Chen Manager: Ming-Chien Chang Accounting Supervisor: Candy Chu

(English Translation of a Report Originally Issued in Chinese)
Elite Semiconductor Memory Technology Inc.
Individual Statement of Cash Flows
As of December 31, 2019 and 2018

Unit: NTD thousand

| | Note | For the year ended December 31, 2019 | For the year ended December 31, 2018 |
|---|---|---|---|
| Cash flow from operating activities | | | |
| Net profit before taxation of current period | | $ 563,433 | $ 835,791 |
| Adjustments | | | |
| Profits and loss | | | |
| Depreciation expenses | 6(7)(8)(9)(23) | 392,093 | 393,901 |
| Amortization expenses | 6(10)(23) | 84,226 | 82,195 |
| Expected credit impairment loss | 12(2) | 10,006 | 4,289 |
| Net losses on financial assets at fair value through profit and loss | 6(2)(21) | 19,145 | 41,577 |
| Interest expenses | 6(22) | 8,715 | 4,881 |
| Interest income | 6(20) | ( 27,979 ) | ( 30,195 ) |
| Dividend income | 6(20) | ( 11,498 ) | ( 9,828 ) |
| Impairment losses | 6(11) | 12,057 | 25,047 |
| Loss of subsidiaries, associates and joint ventures accounted for using the equity method | | 30,257 | 66,626 |
| Changes in operating assets and liabilities: | | | |
| Net changes in operating assets | | | |
| Financial assets at fair value through profit and loss | | 40,915 | 26,427 |
| Notes receivable | | ( 34 ) | 315 |
| Accounts receivable | | ( 110,776 ) | 287 |
| Other receivables | | ( 6,889 ) | ( 13,376 ) |
| Inventories | | 796,007 | ( 2,134,747 ) |
| Prepayments | | 52,706 | ( 9,329 ) |
| Other current assets | | ( 3,844 ) | 553 |
| Net changes in liabilities relating to operating activities | | | |
| Notes payable | | 90 | 1,800 |
| Accounts payable | | 283,737 | 141,601 |
| Contract liabilities - current | | 1,509 | 2,440 |
| Other payables | | ( 53,299 ) | 34,382 |
| Other current liabilities | | 509 | ( 8,864 ) |
| Other noncurrent liabilities | | 392 | 385 |
| Cash inflow (outflow) generated from operating activities | | 2,081,478 | ( 543,842 ) |
| Interest received | | 27,053 | 30,036 |
| Interest paid | | ( 7,388 ) | ( 3,354 ) |
| Income tax paid | | ( 151,522 ) | ( 98,230 ) |
| Cash inflow (outflow) from operating activities | | 1,949,621 | ( 615,390 ) |

(Continue on next page)

(English Translation of a Report Originally Issued in Chinese)

Elite Semiconductor Memory Technology Inc.

Individual Statement of Cash Flows

As of December 31, 2019 and 2018

Unit: NTD thousand

| | Note | For the year ended December 31, 2019 | For the year ended December 31, 2018 |
|---|---|---|---|
| Cash flow from investing activities | | | |
| Financial assets measured at amortized cost | | ($ 140,906 ) | $ - |
| Financial assets at fair value through other comprehensive income | | - | ( 29,650 ) |
| Withdrawal of shares of dissolution and liquidation of subsidiaries | | 42,782 | - |
| Acquisition of property, plant and equipment | 6(27) | ( 268,048 ) | ( 366,402 ) |
| Decrease (increase) in equipment prepayment | | 52,996 | ( 56,921 ) |
| Acquisition of intangible assets | 6(10) | ( 44,832 ) | ( 89,098 ) |
| Decrease (increase) in refundable deposits | | 340 | ( 1,055 ) |
| Dividends received | | 32,538 | 167,500 |
| Net cash outflow from investing activities | | ( 325,130 ) | ( 375,626 ) |
| Cash flow from financing activities | | | |
| Increase (decrease) in short-term notes and bills payable | 6(27) | ( 99,932 ) | 99,932 |
| Increase (decrease) in short-term loans | 6(27) | ( 100,000 ) | 370,000 |
| Repayment of the principal amount of rentals | 6(27) | ( 7,956 ) | - |
| Increase in deposits received | | 110 | 99 |
| Cash dividend paid | 6(17) | ( 428,638 ) | ( 640,447 ) |
| Payment of dividends that are not collected before the designated date | | ( 45 ) | - |
| Dividends that are not collected before the designated date | | 39 | 3,788 |
| Net cash outflows from financing activities | | ( 636,422 ) | ( 166,628 ) |
| Increase (decrease) in cash and cash equivalents | | 988,069 | ( 1,157,644 ) |
| Beginning balance of cash and cash equivalents | 6(1) | 829,308 | 1,986,952 |
| Ending balance of cash and cash equivalents | 6(1) | $ 1,817,377 | $ 829,308 |

The accompanying notes are an integral part of these individual financial statements.

Chairman: Hsing-Hai Chen　　Manager: Ming-Chien Chang　　Accounting Supervisor: Candy Chu

Elite Semiconductor Memory Technology Inc.
Notes to Individual Financial Statements
For Years 2019 and 2018

Unit: NTD thousand
(Unless otherwise indicated)

I. Company History

Elite Semiconductor Memory Technology Inc. (hereinafter referred to as "the Company") was founded in May 1998 and started operation in December of the same year. The core business of the Company includes research, development, production, manufacture, and sales of dynamic and static random access memory, flash memory, analog integrated circuit, analog and digital mixed integrated circuit. The Group also provides technical services related to product design and R&D.

The Company merged with Ji Xin Technology Co., Ltd. On December 5, 2005, and merged with Eon Silicon Solution Inc. on June 8, 2016, and the Company is the surviving company.

II. Approval Date and Procedures of the Financial Statements

The individual financial statements were approved and issued on March 20, 2020, by the Board of Directors.

III. Application of New and Revised Standards, Amendments and Interpretations

(I) Effect of the adoption of new issuance of or amendments to International Financial Reporting Standards ( "IFRS" ) as endorsed by the Financial Supervisory Commission ( "FSC" ).

New standards, interpretations and amendments endorsed by the FSC effective from 2019 are as follows:

| Application of New/Revised/Amended Standards, Amendments and Interpretations | The Effective Date Announced by the International Accounting Standards Board |
|---|---|
| Amendments to IFRS 9 "Prepayment Features with Negative Compensation" | January 1, 2019 |
| IFRS 16 "Leases" | January 1, 2019 |
| Amendments to IAS 19 "Plan Amendments, Curtailment or Settlement" | January 1, 2019 |
| Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures" | January 1, 2019 |
| IFRIC 23 "Uncertainty over Income Tax Treatments" | January 1, 2019 |
| Annual Improvements to IFRS 2015-2017 | January 1, 2019 |

Except for the following, the above standards and interpretations have no significant impact on the Company's financial condition and financial performance based on the Company's assessment:

IFRS 16 "Leases"

1. IFRS 16 "Leases" supersedes IAS 17 "Leases" and its relevant IFRIC interpretations and SIC interpretations. The standard requires lessees to recognize a right-of-use asset and a lease liability (except for those leases with terms of 12

months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.

2. When applying the 2019 version of IFRSs as endorsed by the FSC, the Company elects to adopt IFRS 16 without restating the comparative information ("modified retrospective approach" hereinafter) and made adjustments to lessee lease contracts by increasing the right-of-use assets by NT$81,191 and lease liabilities by NT$81,191.
3. Upon initial adoption of IFRS 16, the Company adopts the following practical expedients:
   A. Contracts that have previously been identified as leases under IAS 17 and IFRIC 4 are not reassessed as to whether they are (or contain) leases but are treated by applying related IFRS 16 requirements.
   B. Applying a single discount rate to a portfolio of leases with reasonably similar characteristics.
   C. The use of hindsight in determining the lease term where the contract contains options to extend to terminate the lease.
4. The Company applied its incremental borrowing rate to calculate the present value of lease liabilities. The interest rate is 1.52%.
5. The Company discloses the amounts of its operating lease commitments pursuant to IAS 17. Below is the reconciliation of the present value after discount using the incremental borrowing rate upon the initial application date and the lease liability recognized on January 1, 2019.

| | | |
|---|---|---|
| Operating lease commitments applying IFRS 17 "Disclosures" as of December 31, 2018 | $ | 60,825 |
| Add: Adjustment for reasonable evaluation of lease renewal right | | 31,983 |
| Total value of lease contracts for which the recognition of a lease liability is required pursuant to IFRS 16 as of January 1, 2019 | $ | 92,808 |
| The Company's incremental borrowing rate as at the initial application date | | 1.52% |
| Lease liability recognized pursuant to IFRS 16 as of January 1, 2019 | $ | 81,191 |

(II) Effect of New Issuances of or Amendments to IFRSs as Endorsed by the FSC but not yet Adopted by the Company

New standards, interpretations and amendments endorsed by the FSC effective from 2020 are as follows:

| Application of New/Revised/Amended Standards, Amendments and Interpretations | The Effective Date Announced by the International Accounting Standards Board |
|---|---|
| Amendments to IAS 1 and IAS 8 "Disclosure Initiative - Definition of Materiality” | Jan. 1, 2020 |
| Amendments to IFRS 3 "Definition of a Business” | Jan. 1, 2020 |
| Amendments to IFSR 9, IAS 39, and IFRS 7 "Changes | Jan. 1, 2020 |

in Interest Rate Indicators”

The above standards and interpretations have no significant impact on the Company's financial condition and financial performance based on the Company's assessment.

(III) Effects of IFRS Issued by IASB but not yet Endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the IFRS as endorsed by the FSC are as follows:

| Application of New/Revised/Amended Standards, Amendments and Interpretations | The Effective Date Announced by the International Accounting Standards Board |
|---|---|
| Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture” | To be determined by IASB |
| IFRS 17 "Insurance Contracts” | Jan. 1, 2021 |
| Amendments to IAS 1 "Classification of Liabilities as Current or Non-current” | Jan. 1, 2022 |

The above standards and interpretations have no significant impact on the Company's financial condition and financial performance based on the Company's assessment.

IV. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these individual financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(I) Compliance Statement

The individual financial reports are prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

(II) Preparation Basis

1. Except for the following significant items, these individual financial statements have been prepared under the historical cost:
   (1) Financial assets and financial liabilities (including derivatives instruments) at fair value through profit or loss.
   (2) Financial assets measured at fair value through other comprehensive income.
   (3) Defined benefit liabilities recognized based on the net amount of pension fund assets less present value of defined benefit obligation.
2. The preparation of financial statements in conformity with IFRS, IAS, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “IFRSs”) requires the use of certain significant accounting estimates. It also requires the management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the individual financial statements are disclosed in Note 5.

(III) Foreign Currency Translation

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (that is, the functional currency). The individual financial statements are presented in New Taiwan Dollars, which is the Company's functional and presentation currency.

Foreign currency transactions and balances

1. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss in the period in which they arise.
2. Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing on the balance sheet date. Exchange differences arising upon re-translation on the balance sheet date are recognized in profit or loss.
3. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are retranslated at the exchange rates prevailing on the balance sheet date; their translation differences are recognized in profit or loss as part of the fair value profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are retranslated at the exchange rates prevailing on the balance sheet date; their translation differences are recognized in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates on the dates of the initial transactions.
4. All exchange gains and losses are presented as "other gains and losses" on the statement of comprehensive income.

(IV) <u>Classification of Current and Non-Current Asset and Liability Items</u>

1. Assets that meet one of the following criteria are classified as current assets:
   (1) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle.
   (2) Assets arising mainly from trading activities.
   (3) Assets that are expected to be realized within 12 months from the balance sheet date.
   (4) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than 12 months after the balance sheet date.

   All other assets that do not meet any of the above criteria are classified as non-current assets.

2. Liabilities that meet one of the following criteria are classified as current liabilities:
   (1) Liabilities that are expected to be paid off within the normal operating cycle.
   (2) Assets arising mainly from trading activities.
   (3) Liabilities that are to be paid off within 12 months from the balance sheet date.
   (4) Liabilities for which the repayment date cannot be extended unconditionally to more than 12 months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

   All other liabilities that do not meet any of the above criteria are classified as non-current assets.

(V) <u>Cash Equivalents</u>

Cash equivalents refer to short-term and highly liquid investments that are readily convertible to known amount of cash and subject to an insignificant risk of changes in value. Time deposits can be classified as cash equivalents if they meet the criteria mentioned above and are held for short-term cash commitments in an operational purpose.

(VI) <u>Financial Assets at Fair Value through Profit and Loss</u>

1. Financial assets at fair value through profit or loss are financial assets that are not measured at amortized cost or fair value through other comprehensive income.
2. Based on a regular purchase or sale way, financial assets at fair value through profit or loss are recognized using trade date accounting.
3. At initial recognition, the Company measures the financial assets at fair value and recognizes the transaction costs in profit or loss. The Company subsequently measures the financial assets at fair value and recognizes the gain or loss in profit or loss.
4. The Company recognizes the dividend income when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Company and the amount of the dividend can be measured reliably.

(VII) <u>Financial Assets at Fair Value through Other Comprehensive Income</u>

1. Refers to the irrevocable selection made at initial recognition that allows the Company to present fair value changes of equity investment not held for trading in other comprehensive income; or debt investment that meets all the criteria simultaneously:
   (1) Financial assets held within a business model of which the objective of

holding is to collect the contractual cash flows and to sell.

(2) The cash flows on specific dates that are generated from the contractual terms of the financial assets are solely payments of the principal and interest on the principal amount outstanding.

2. The Company's financial assets measured at fair value through other comprehensive profit or loss in accordance with the trading conventions are accounted for on the trade date.
3. At initial recognition, the Company measures the financial assets at fair value plus transaction costs. The Company subsequently measures the financial assets at fair value.

The changes in fair value of equity investments that were recognized in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the derecognition of the investment. The Company recognizes the dividend income when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Company and the amount of the dividend can be measured reliably.

(VIII) Financial Assets Measured at Cost After Amortization

1. Financial assets at amortized cost are those that meet all of the following criteria:
   (1) The objective of the Company’s business model is achieved by collecting contractual cash flows; and
   (2) The cash flows on specific dates that are generated from the contractual terms of the financial assets are solely payments of the principal and interest on the principal amount outstanding.
2. The Company uses the trade day accounting for financial assets measured at amortized cost and complied with trade practices.
3. At initial recognition, the Company measures the financial assets at fair value plus transaction costs. In subsequent periods, interest income is recognized using the effective interest method and an impairment loss is accounted for. Upon derecognition, the gain or loss is recognized in profit or loss.
4. The Company holds time deposits that do not meet the definition of cash equivalents. Due to their short maturity periods, the impact of discounting is not significant. Thus, they are measured by the investment amount.

(IX) Accounts Receivable and Notes

1. Accounts and notes receivable entitle the Company a legal right to receive consideration in exchange for transferred goods or rendered services.
2. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(X) Impairments of Financial Assets

The Company measures the loss allowance for financial assets and accounts receivable containing significant financial components measured at amortized cost after taking into account all reasonable and proving information (including foreseeing information) on each balance sheet date; where the credit risk has not significantly increased since initial recognition, the loss allowance is measured at the 12-month expected credit losses; where the credit risk has increased significantly since initial recognition, the loss allowance is measured at full lifetime expected credit losses; and where they are accounts receivables or contract assets that do not comprise any significant financing components, the loss allowance is measured at full lifetime expected credit losses.

(XI) The Derecognition of Financial Assets

The Company derecognizes a financial asset when the contractual rights to receive cash flows from the financial asset expire.

(XII) Operating Lease (The Lessor)

Payments received under an operating lease (net of any incentives given to the lessee) are recognized in profit or loss on a straight-line basis over the lease term.

(XIII) Inventories

Inventories are measured at the lower of cost and net realizable value. Cost is determined using the weighted-average cost method. The cost of finished goods and goods in process comprises raw materials, direct labor, other direct costs and related production overheads. However, loan costs are excluded. The item by item approach is used in applying the lower of cost and net realizable value. Net realizable value is the balance obtained after the estimated selling price in the ordinary course of business minuses the estimated cost of completion and applicable variable selling expenses.

(XIV) Investments Accounted for under the Equity Method/Subsidiaries and Associates

1. Subsidiaries refer to entities (including structured entities) controlled by the Company. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.
2. Transactions and unrealized gains or losses on transactions between the Company and its subsidiaries have been eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Company.
3. The Company's share of its subsidiaries' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. When the Company's share of losses in a subsidiary equals or exceeds its interest in the subsidiary, the Company shall continue to recognize losses in proportion to its ownership.

4. Changes in a parent's ownership interest in a subsidiary not resulting in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity.
5. Associates are all entities over which the Company has significant influence but does not control. In general, it is presumed that the investor has significant influence if an investor holds directly or indirectly 20 percent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognized at cost.
6. The Company's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognize further losses unless it has incurred legal or constructive obligations or made payments on behalf of the associate.
7. When an associate’s equity changes are not recognized in profit or loss or other comprehensive income of the associate, and such changes do not affect the Company’s ownership percentage of the associate, the Company recognizes the change in ownership interests in the associate in "capital surplus" in proportion to its ownership.
8. Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Company.
9. Where an associate issues new shares and the Company does not subscribe or acquire new shares proportionately, which results in a change in the Company's ownership percentage of the associate but maintains significant influence on the associate, the "capital surplus" and "investments accounted for under the equity method" shall be adjusted for the increase or decrease of its share of equity interest. If the above condition causes a decrease in the Company's ownership percentage of the associate, in addition to the above adjustment, the amounts previously recognized in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately on the same basis as would be required if the relevant assets or liabilities were disposed of.
10. Upon loss of significant influence over an associate, the Company shall

remeasure the remaining investment retained in the former associate at its fair value. Any difference between the fair value and the carrying amount is recognized in profit or loss for the period.

11. When the Company disposes its investment in an associate and loses significant influence over this associate, the amounts previously recognized in other comprehensive income in relation to the associate are handled on the same basis as would be required if the relevant assets or liabilities were disposed of. That is, the profits or losses recognizes in other comprehensive income are reclassified to profit or loss upon disposal of such assets or liabilities. In circumstances where the Company loses significant influence over this associate, such assets or liabilities are reclassified to profit or loss. If it retains significant influence over this associate, the amounts previously recognized in other comprehensive income in relation to the associate are reclassified under profit or loss proportionately in accordance with the aforementioned approach.
12. In accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers," the profit or loss during the period and other comprehensive income presented in individual financial reports shall be the same as the allocations of profit or loss during the period and of other comprehensive income attributable to owners of the parent company presented in the financial reports prepared on a consolidated basis, and the owners' equity presented in the individual financial reports shall be the same as the equity attributable to owners of the parent presented in the financial reports prepared on a consolidated basis.

(XV) Property, Plant, and Equipment

1. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalized.
2. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
3. Except for the land not being depreciated, other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. 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 must be depreciated separately.
4. The Company reviews each asset's residual values, useful lives and depreciation methods at the end of each financial year. If expectations for the

assets' residual values and useful lives differ from previous estimates or the consumption patterns of the assets' future economic benefits embodied in the assets have changed significantly, any change is seen as a change in estimate under IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" from the date of the change.

The estimated useful lives of property, plant and equipment are as follows:

| | |
|---|---|
| Houses and buildings | 3 to 20 years |
| Machinery equipment | 3 to 28 years |
| Laboratory equipment | 3 to 28 years |
| Others | 3 to 10 years |

(XVI) Lease Transaction in the Capacity of a Lessee - Right-of-Use Assets/Lease Liabilities

Applicable for the annual periods beginning on or after January 1, 2019

1. A right-of-use asset and a lease liability are recognized for a leased asset on the date when it becomes readily available for the Company's use. When a lease contract is a short-term lease or when it is a lease of which the underlying asset is of low value, lease payments are recognized as an expense on a straight-line basis over the lease term.
2. The Company recognizes the present value of unpaid lease liabilities discounted at the Company’s incremental borrowing interest rate starting from the lease starting date. Lease payments include fixed payments, excluding any lease incentives. Subsequently, lease liabilities are measured at the amortized cost using the effective interest rate method, and interest expense is allocated over the lease term.

   Starting from the lease date, the Company assesses whether it can reasonably determine its option to extend the lease or purchase the underlying asset, or not to terminate the lease. The Company considers all relevant facts and circumstances that will generate economic incentives to exercise or not exercise the options. Such circumstances include all expected changes in facts and situations from the start of the lease to the day when the option is exercised. Main factors to consider include contractual terms and conditions within the period of options and the importance of the underlying asset to the lessee’s operations, etc. The lease term will be reassessed if a significant change or a major change in circumstances occurs within the Company's control range.

   When a change in the lease term or lease payments occurs due to reasons other than lease modifications, lease liabilities are reassessed and the remeasurements are adjusted to the right-of-use assets.
3. Right-of-use assets are recognized at cost on the lease start date. The cost refers to the initial measurement of the lease liabilities. A right-of-use asset is subsequently measured using the cost model and depreciated from the

commencement date to the earlier of the end of the useful life of the right-of-use asset and the end of the lease term. When a lease liability is reassessed, the right-of-use asset is adjusted for any remeasurements of the lease liability.

(XVII) Operating Lase (The Lessee)

Applicable for the annual periods beginning on or after January 1, 2018

Payments made under an operating lease (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the lease term.

(XVIII) Investment Property

An investment property is stated initially at its cost and measured subsequently using the cost model. Investment property is depreciated on a straight-line basis over its estimated useful life of 20 years.

(XIX) Intangible Assets

1. Patent, specialized technology and customer relations

   The patents acquired separately are recognized as the acquisition cost. The patent, special technology and customer relations acquired from a merger are recognized at fair value on the acquisition date and are depreciated on a straight-line method basis over its estimated useful life of three years.

2. Goodwill

   Goodwill arises in a business combination that applies the acquisition method.

3. Other intangible assets, which mainly refer to computer software, are recognized as cost on the acquisition date and are depreciated on a straight-line basis over its estimated useful life of three years.

(XX) Impairment of Non-Financial Assets

1. The Company assesses on each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher amount between an asset's fair value deducting costs to sell and the value in use. When the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss shall be reversed. The increased carrying amount due to reversal shall not exceed what the depreciated or amortized historical cost would have been if the impairment had not been recognized.

2. The recoverable amount of goodwill shall be evaluated periodically. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment loss of goodwill previously recognized in profit or loss shall not be reversed in the following years.

3. The Company's goodwill is the purpose of impairment testing and will be

allocated to each of the cash-generating units. According to the operational unit's identification, the Company's goodwill is allocated to the cash-generating units or groups that are expected to benefit from the merger that generates goodwill.

(XXI) Borrowings

Borrowings refer to short-term loans from banks. Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

(XXII) Notes and Accounts Payable

Accounts payable and notes are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. However, short-term accounts payable without bearing interest are subsequently measured at the initial invoice amount as the effect of discounting is immaterial.

(XXIII) Derecognition of Financial Liabilities

The Company derecognizes a financial liability when the obligation under the contract is performed, canceled, or expires.

(XXIV) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation on the balance sheet date, which is discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. When discounting is used, the increase in the provision due to passage of time is recognized as interest expense. Provisions are not recognized for future operating losses.

(XXV) Employee Benefits

1. Short-term employee benefits

   Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognized as expense in that period when the employees render service.

2. Pension

   (1) Defined contribution pension plan

   For defined contribution plans, the contributions are recognized as pension expense when they are due on an accrual basis. Prepaid contributions are recognized as an asset to the extent of a cash refund or a reduction in future payments.

(2) Defined benefit plans

A. Net obligation under a defined benefit plan refers to the discounted present value generated from the employees' current for past services; the present value under the defined benefit plan on the balance sheet date shall minus the fair value of plan assets. The net obligation under the defined benefit plan is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using government bonds yield on the balance sheet date of currency and term consistent with that of the defined benefit plan and the balance sheet date.

B. Remeasurements arising under defined benefit plans are recognized in other comprehensive income for the period and are recorded as other equity.

C. Past service costs are recognized immediately in profit or loss.

3. Remuneration to employees, Directors and Supervisors

Remuneration to employees, Directors and Supervisors are recognized as expense and liability, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently distributed amounts are accounted for as changes in estimates. If employee remuneration is paid by shares, the Company calculates the number of shares based on the closing price one day prior to the board meeting resolution.

(XXVI) Share-Based Payment to Employees

1. For equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments on the granting date and are recognized as the remuneration cost over a vesting period, with a corresponding adjustment to equity. The fair value of the equity instruments shall reflect the impact of market vesting conditions and non-market vesting conditions. Recognized remuneration cost is subject to adjustments based on the service conditions and non-market vesting conditions that are expected to be satisfied until the amount of remuneration cost recognized is the number of equity instruments that are eventually vested on the vesting date.

2. The Company’s new restricted employee shares:

(1) Remuneration cost is recognized at the fair value of the equity instruments on the grant date over the vesting period.

(2) For shares to be included in dividend distribution, employees are not

required to return the dividends if they resign during the vesting period. The Company recognizes the fair value of the dividends received by the employees who are expected to resign during the vesting period as remuneration cost on the dividend declaration date.

(3) Employees are not required to make payments to obtain new restricted employee shares. If an employee resigns within the vesting period, he/she shall return the shares and the Company shall cancel the share.

(XXVII) Income Tax

1. The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except for items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.
2. The current income tax expense is calculated on the basis of the tax laws substantively enacted on the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax is levied on the unappropriated retained earnings in accordance with the Income Tax Act and is recorded as income tax expense in the year the shareholders resolve to retain the earnings based on the actual earnings appropriation.
3. Deferred tax is recognized, using the balance sheet approach, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. Deferred income tax liabilities arising from the originally recognized goodwill are not recognized. Deferred income tax is not recognized if it originates from the original recognition of the asset or liability in transactions (excluding mergers) and did not affect accounting profits or taxable income (taxable loss) at the time of the transaction. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.
4. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. On each balance sheet date, unrecognized and recognized deferred tax assets are reassessed.

5. A deferred tax asset shall be recognized for the carry-forward of unused tax credits resulting from acquisitions of equipment or technology, research and development expenditures and equity investments to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilized.
6. If tax rate changes in the interim, the Company recognizes all effects of changes to the period when such changes accrue; for income tax attributable to items not included in profit or loss, effects of changes are recognized in other comprehensive income or equity; and for income tax related to items included in profit or loss, effects of changes are recognized in profit or loss.

(XXVIII) Share Capital

1. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.
2. Where the Company repurchases its equity share capital that has been issued, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently reissued, the difference between their book value and any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(XXIX) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are resolved by the Company's shareholders. Cash dividend distributions are recorded as liabilities; stock dividends distributions are recorded as stock dividends to be distributed and are reclassified as ordinary shares on the effective date of new shares issuance.

(XXX) Recognition of Revenue

1. The Company manufactures and sells integrated circuits and recognizes sales revenue when the control of products is transferred to customers, i.e. when products are delivered to customers and the Company doesn't have further performance obligations that might affect the acceptance of goods by customers. When goods are delivered to a specific location, the risk of delivery, obsolescence, and loss is transferred to customers, who accept the goods in accordance with the contractual terms, or when any objective evidence suggests that all criteria for the transaction have been satisfied and the goods delivery has occurred.
2. The Company accepts sales orders from customers. Sales revenue is recognized according to the contract price, and the Company transfers the promised goods or services to customers. Since the customer's payment period

does not exceed one year, the Company has not adjusted the monetary time value of the transaction price.

3. Accounts receivable are recognized when goods are delivered to customers, at which time the Company's right to the consideration for contracts from customers is unconditional, except for passage of time.

V. Main Sources of Significant Accounting Judgments, Assumptions and Estimates Uncertainty

The preparation of these individual financial statements requires the management to make critical judgments in applying the Company's accounting policies and make critical assumptions and estimates concerning future events. Material accounting estimates and assumptions may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such estimates and assumptions have a significant risk of causing a material adjustment of the carrying amounts of assets and liabilities within the next financial year. The related explanation about the uncertainties in material accounting judgments, estimates, and assumptions is addressed below:

(I) Critical judgments in applying the Company’s accounting policies

None.

(II) Significant accounting estimates and assumption

1. Impairment of goodwill

The assessment of goodwill impairment relies on the Company’s subjective judgment, including identifying cash-generating units and the allocation of assets and liabilities and goodwill to the relevant cash-generating units, and determining the recoverable amount of the relevant cash-generating units. For information related to assessment of goodwill impairment, please refer to Note 6 (11).

Total book value of goodwill on December 31, 2019 is NT$43,654.

2. Inventory valuation

As inventories are stated at the lower of cost and net realizable value, the Company must determine the net realizable value of inventories on balance sheet date using judgments and estimates. Due to the rapid changes of technology, the Company evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on the balance sheet date and writes down the cost of inventories to the net realizable value. Since the inventory valuation is estimated based on demands for products in a specific future period, it may be subject to significant changes.

Total book value of inventories on December 31, 2019 is NT$4,968,524.

VI. Summary of Significant Accounts

(I) Cash and cash equivalents

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Cash on hand and revolving funds | $ 115 | $ 115 |
| Checking deposits and demand deposits | 343,791 | 156,444 |
| Time deposits | 1,473,471 | 672,749 |
| | $ 1,817,377 | $ 829,308 |

1. The Company transacts with a variety of financial institutions with high credit quality to disperse credit risk, so the probability of counterparty default is expected to be low.
2. For the restrictions on the Company's use of cash and cash equivalents as pledge guarantees, please refer to Note 8.

(II) Financial assets at fair value through profit and loss

| Items | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Current items: | | |
| Financial assets mandatorily measured at fair value through profit or loss | | |
| TWSE/TPEx-listed stocks | $ 286 | $ 25,135 |
| Emerging stocks | 115,673 | 138,105 |
| Beneficiary certificates | 45,465 | 45,465 |
| Corporate bonds | 31,226 | 31,226 |
| Subtotal | 192,650 | 239,931 |
| Evaluation adjustment | ( 41,809) | ( 29,030) |
| Total | $ 150,841 | $ 210,901 |

1. Financial assets measured at fair value through profit or loss that are recognized in profit (loss) are detailed as follows:

| | 2019 | 2018 |
|---|---|---|
| Financial assets mandatorily measured at fair value through profit or loss | | |
| Equity instruments | ($ 24,397) | ($ 34,513) |
| Debt instruments | 2,750 | ( 7,507) |
| Beneficiary certificates | 2,502 | 443 |
| Total | ($ 19,145) | ($ 41,577) |

2. The Company has no financial assets at fair value through profit or loss pledged as collateral.
3. For information on the credit risk of financial assets measured at fair value through profit or loss, please refer to Note 12 (2) 3.(2).

(III) Financial assets at fair value through other comprehensive income

| Items | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Non-current items: | | |
| Equity instruments | | |
| Unlisted stocks | $ 29,650 | $ 29,650 |
| Evaluation adjustment | ( 4,262) | - |
| | $ 25,388 | $ 29,650 |

The Company has chosen to classify equity investment in strategic investment as financial assets at fair value through other comprehensive income, which are at NT$25,388 and NT$29,650 as of December 31, 2018 and 2019, respectively.

(IV) Accounts receivable

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Accounts receivable - general customers | $ 1,174,227 | $ 1,063,215 |
| Accounts receivable - related parties | 241 | 478 |
| | 1,174,468 | 1,063,693 |
| Less: Allowance for losses | ( 14,295) | ( 4,289) |
| | $ 1,160,173 | $ 1,059,404 |

1. Aging analysis of accounts receivable is stated as follows:

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Not past due | $ 1,159,935 | $ 1,048,082 |
| Past due - within 30 days | 238 | 1,285 |
| Past due - 31~90 days | - | - |
| Past due - 91~180 days | - | 14,326 |
| Past due - over 181 days | 14,295 | - |
| | $ 1,174,468 | $ 1,063,693 |

The aging analysis above is based on the number of past due days.

2. Without regard to the security held or other credit enhancement, the maximum amounts of exposure at default best representing credit risk of the Company's accounts receivable on December 31, 2018 and December 31, 2017 are NT$1,160,173 and NT$1,059,404, respectively.
3. The collaterals and fair value of collaterals held by the Company as security for accounts receivable are as follows:

| | 2019.12.31 | 2018.12.31 |
|---|---|---|
| Bank guarantee | $ 43,494 | $ 59,215 |
| Pledged certificate of deposit | 7,500 | 7,500 |
| Refundable deposits (listed in “other non-current liabilities”) | 8,794 | 8,600 |
| Letters of credit | 546,672 | 549,718 |
| Company promissory note/check | 366,621 | 423,737 |
| | $ 973,081 | $ 1,048,770 |

4. For credit risk information on accounts receivable, please refer to Note 12 (2).
5. The balance of accounts receivable and notes receivable on December 31, 2019 and 2018 were generated from customer contracts. The balance of receivables on customer contract on January 1, 2018, was NT$1,128,414.
6. The Company does not have account receivables pledged as collaterals.

(V) Inventories

| | 2019.12.31 | | |
|---|---|---|---|
| | Cost | Allowance for valuation loss | Book value |
| Raw materials | $ 156,518 | ($ 9,794) | $ 146,724 |
| Work in process | 4,013,286 | ( 70,663) | 3,942,623 |
| Finished goods | 963,140 | ( 88,305) | 874,835 |
| Inventory in transit | 4,342 | - | 4,342 |
| | $ 5,137,286 | ($ 168,762) | $ 4,968,524 |

| | 2018.12.31 | | |
|---|---|---|---|
| | Cost | Allowance for valuation loss | Book value |
| Raw materials | $ 456,550 | ($ 29,332) | $ 427,218 |
| Work in process | 4,150,475 | ( 140,498) | 4,009,977 |
| Finished goods | 1,406,889 | ( 84,521) | 1,322,368 |
| Inventory in transit | 4,968 | - | 4,968 |
| | $ 6,018,882 | ($ 254,351) | $ 5,764,531 |

The cost of inventories recognized as expense for the period:

| | 2019 | 2018 |
|---|---|---|
| Cost of inventories sold | $ 10,305,310 | $ 9,291,680 |
| Losses (reversed gains) from price decline or | ( 85,589) | 146,677 |

| | | |
|---|---|---|
| obsolescence of inventory | | |
| | $ 10,219,721 | $ 9,438,357 |

In 2019, the provision for the recorded falling price losses of the inventories was sold; there were reversed gains.

(VI) Investments accounted for using equity method

| | 2019.12.31 | 2018.12.31 |
|---|---|---|
| Subsidiaries: | | |
| Elite Memory Technology Inc. | $ 30,179 | $ 22,583 |
| Chang Feng Investment Co., Ltd. | 394,670 | 375,444 |
| CML Inc. | - | 61,705 |
| Elite Investment Services Ltd. | 627,721 | 637,559 |
| Elite Semiconductor (B.V.I.) Ltd. | 26,627 | 28,055 |
| Jie Yong Investment Co., Ltd. | 147,009 | 149,932 |
| Eon Silicon Solution (Samoa) Inc. | - | 3,147 |
| Eon Silicon Solutions, Inc. USA | ( 1,170) | ( 287) |
| | $ 1,225,036 | $ 1,278,138 |

For more information on the subsidiaries of the Company, refer to Note 4(3) of the Company's 2019 consolidated financial statements.

(VII) Property, plant, and equipment

| | Land | Houses and buildings | Machinery equipment | Laboratory equipment | Others | Total |
|---|---|---|---|---|---|---|
| January 1, 2019 | | | | | | |
| Cost | $ 9,023 | $615,250 | $393,787 | $181,379 | $1,069,371 | $2,268,810 |
| Accumulated depreciation and impairment | - | ( 332,185) | ( 313,872) | ( 128,711) | ( 701,219) | ( 1,475,987) |
| | $ 9,023 | $283,065 | $ 79,915 | $ 52,668 | $ 368,152 | $ 792,823 |
| 2019 | | | | | | |
| January 1 | $ 9,023 | $283,065 | $ 79,915 | $ 52,668 | $ 368,152 | $ 792,823 |
| Additions | - | 5,496 | 35,908 | 10,059 | 159,111 | 210,574 |
| Reclassification (Note 1) | - | 15,195 | - | 59,205 | - | 74,400 |
| Depreciation expenses | - | ( 32,703) | ( 38,667) | ( 19,779) | ( 291,581) | ( 382,730) |
| December 31 | $ 9,023 | $271,053 | $ 77,156 | $102,153 | $ 235,682 | $ 695,067 |
| 2019.12.31 | | | | | | |
| Cost | $ 9,023 | $635,941 | $429,694 | $250,644 | $1,228,482 | $2,553,784 |
| Accumulated depreciation and impairment | - | ( 364,888) | ( 352,538) | ( 148,491) | ( 992,800) | ( 1,858,717) |
| | $ 9,023 | $271,053 | $ 77,156 | $102,153 | $ 235,682 | $ 695,067 |

| | Land | Houses and buildings | Machinery equipment | Laboratory equipment | Others | Total |
|---|---|---|---|---|---|---|
| January 1, 2018 | | | | | | |
| Cost | $ 9,023 | $631,503 | $388,650 | $161,810 | $ 775,360 | $1,966,346 |
| Accumulated depreciation and impairment | - | ( 301,551) | ( 252,869) | ( 111,375) | ( 417,019) | ( 1,082,814) |
| | $ 9,023 | $329,952 | $135,781 | $ 50,435 | $ 358,341 | $ 883,532 |
| 2018 | | | | | | |
| January 1 | $ 9,023 | $329,952 | $135,781 | $ 50,435 | $ 358,341 | $ 883,532 |
| Additions | - | 4,116 | 5,137 | 19,569 | 294,011 | 322,833 |
| Reclassification (Note 2) | - | ( 20,369) | - | - | - | ( 20,369) |
| Depreciation expenses | - | ( 30,634) | ( 61,003) | ( 17,336) | ( 284,200) | ( 393,173) |
| December 31 | $ 9,023 | $283,065 | $ 79,915 | $ 52,668 | $ 368,152 | $ 792,823 |

| | | | | | | |
|---|---|---|---|---|---|---|
| December 31, 2018 | | | | | | |
| Cost | $ 9,023 | $615,250 | $393,787 | $181,379 | $1,069,371 | $2,268,810 |
| Accumulated depreciation and impairment | - | ( 332,185) | ( 313,872) | ( 128,711) | ( 701,219) | ( 1,475,987) |
| | $ 9,023 | $283,065 | $ 79,915 | $ 52,668 | $ 368,152 | $ 792,823 |

Note 1. Transferred from prepayments for facilities (listed in “other noncurrent assets”).

Note 2. The Company has rented houses and buildings since April 2018. Thus, relevant houses and buildings are reclassified to investment property. Please refer to Note 6 (9) for details.

1. The Company has no capitalization of interests in 2019 and 2018.
2. The Company does not provide property, plant and equipment as collateral.

(VIII) Lease Transaction - The Lessee

Applicable for the annual periods beginning on or after January 1, 2019

1. The Company’s leased objects include land, houses and buildings, company vehicles, and photocopy machines. The periods of lease contract vary from 2 to 20 years. The lease contracts are negotiated individually and contain different terms and conditions. The company vehicles leased by the Company are classified as short-term lease contracts as the lease periods do not exceed 12 months.
2. Below is the carrying amounts of right-of-use assets and their recognized depreciation expenses:

| | 2019.12.31 | 2019 |
|---|---|---|
| | Book value | Depreciation expenses |
| Land | $ 65,641 | $ 3,420 |
| Houses and buildings | 5,701 | 2,545 |
| Company vehicles | 470 | 1,732 |
| Photocopy machines | 986 | 696 |
| | $ 72,798 | $ 8,393 |

3. The profit and loss items related to the lease contracts are as follows:

| | 2019 |
|---|---|
| Items that affect profit or loss | |
| Interest expense on lease liability | $ 1,075 |
| Rent expense of short-term leases | $ 1,232 |

4. The Company's cash outflow from leases amounted to NT$10,263 in 2019.

(IX) Investment property

| | Houses and buildings |
|---|---|
| Jan. 1, 2019 | |
| Cost | $ 20,369 |
| Accumulated depreciation and impairment | ( 728) |
| | $ 19,641 |
| 2019 | |
| January 1 | $ 19,641 |
| Depreciation expenses | ( 970) |
| December 31 | $ 18,671 |
| December 31, 2019 | |
| Cost | $ 20,369 |
| Accumulated depreciation and impairment | ( 1,698) |
| | $ 18,671 |

| | Houses and buildings |
|---|---|
| January 1, 2018 | |
| Cost | $ - |
| Accumulated depreciation and impairment | - |
| | $ - |
| 2018 | |
| January 1 | $ - |
| Reclassification | 20,369 |
| Depreciation expenses | ( 728) |
| December 31 | $ 19,641 |
| December 31, 2018 | |
| Cost | $ 20,369 |
| Accumulated depreciation and impairment | ( 728) |
| | $ 19,641 |

1. Rental income from the lease of the investment property and direct operating expenses:

| | 2019 | 2018 |
|---|---|---|
| Rental income from investment property | $ 2,436 | $ 1,960 |
| Direct operating expenses arising from the investment property generating rental income in the period | $ 970 | $ 728 |

2. The fair value of the investment properties held by the Company on December 31, 2019 and 2018 are NT$10,538 and NT$12,380. This is the evaluation results under income approach. The main assumptions are as follows:

| | 2019.12.31 | 2018.12.31 |
|---|---|---|
| Net income as a percentage of capital (Note) | 13.86% | 10.96% |

Note: Calculated based on the weighted average capital cost of the issuer.

3. The Company has no capitalization of interests in 2019 and 2018.
4. The Company does not provide investment property as collateral.

(X) Intangible assets

| | Patent and specialized technology | Customer relations | Goodwill | Others | Total |
|---|---|---|---|---|---|
| January 1, 2019 | | | | | |
| Cost | $ 34,478 | $ 11,000 | $ 80,758 | $ 323,012 | $ 449,248 |
| Accumulated amortization and impairment | ( 16,596) | ( 9,473) | ( 25,047) | ( 265,504) | ( 316,620) |
| | $ 17,882 | $ 1,527 | $ 55,711 | $ 57,508 | $ 132,628 |
| 2019 | | | | | |
| January 1 | $ 17,882 | $ 1,527 | $ 55,711 | $ 57,508 | $ 132,628 |
| Additions | - | - | - | 44,832 | 44,832 |
| Amortization expenses | ( 8,960) | ( 1,527) | - | ( 73,739) | ( 84,226) |
| Impairment losses | - | - | ( 12,057) | - | ( 12,057) |
| December 31 | $ 8,922 | $ - | $ 43,654 | $ 28,601 | $ 81,177 |
| December 31, 2019 | | | | | |
| Cost | $ 34,478 | $ 11,000 | $ 80,758 | $ 367,844 | $ 494,080 |
| Accumulated amortization and impairment | ( 25,556) | ( 11,000) | ( 37,104) | ( 339,243) | ( 412,903) |
| | $ 8,922 | $ - | $ 43,654 | $ 28,601 | $ 81,177 |

| | Patent and specialized technology | Customer relations | Goodwill | Others | Total |
|---|---|---|---|---|---|
| January 1, 2018 | | | | | |
| Cost | $ 19,183 | $ 11,000 | $ 80,758 | $ 249,209 | $ 360,150 |
| Accumulated amortization and impairment | ( 8,927) | ( 5,806) | - | ( 194,645) | ( 209,378) |
| | $ 10,256 | $ 5,194 | $ 80,758 | $ 54,564 | $ 150,772 |
| 2018 | | | | | |
| January 1 | $ 10,256 | $ 5,194 | $ 80,758 | $ 54,564 | $ 150,772 |
| Additions | 15,295 | - | - | 73,803 | 89,098 |
| Amortization expenses | ( 7,669) | ( 3,667) | - | ( 70,859) | ( 82,195) |
| Impairment losses | - | - | ( 25,047) | - | ( 25,047) |
| December 31 | $ 17,882 | $ 1,527 | $ 55,711 | $ 57,508 | $ 132,628 |
| December 31, 2018 | | | | | |
| Cost | $ 34,478 | $ 11,000 | $ 80,758 | $ 323,012 | $ 449,248 |
| Accumulated amortization and impairment | ( 16,596) | ( 9,473) | ( 25,047) | ( 265,504) | ( 316,620) |
| | $ 17,882 | $ 1,527 | $ 55,711 | $ 57,508 | $ 132,628 |

1. Details of the amortization of intangible assets are as follows:

| | 2019 | 2018 |
|---|---|---|
| Operating costs | $ 8,404 | $ 6,336 |
| Selling expenses | 1,528 | 3,667 |
| Administrative expenses | 711 | 860 |
| Research and development expenses | 73,583 | 71,332 |
| | $ 84,226 | $ 82,195 |

2. The Company has no capitalization of interests in 2019 and 2018.
3. There is no impairment of tangible assets. Please refer to Note 6 (11) for explanation.
4. The Company does not provide intangible assets as collaterals.

(XI) Impairment of non-financial assets

The Company performs impairment tests on the recoverable amount of goodwill on the balance sheet date. The recoverable amount of the cash-generating unit has been evaluated based on the value in use. The value in use is calculated based on the cash flow forecast for the next five years approved by management as the basis for estimation. Relevant discount rates for 2019 and 2018 were 13.86% and 12.5%, respectively. The value used by the Company to calculate cash-generating units is derived from historical information on estimated future revenue growth rates, gross profit margins and operating expense ratios, and with reference to future industrial economic trends.

The recoverable amount calculated based on the above key assumptions is lower than the book value of goodwill. Thus the Company recognized impairment losses of NT$12,057 and NT$25,047 in 2019 and 2018, respectively.

(XII) Short-term borrowings

| Loan type | December 31, 2019 | Interest rate collars | Collateral |
|---|---|---|---|
| Borrowings from banks | | | |
| Credit loans | $ 270,000 | 0.98%～1.00% | None |

| Loan type | December 31, 2018 | Interest rate collars | Collateral |
|---|---|---|---|
| Borrowings from banks | | | |
| Credit loans | $ 370,000 | 0.98%～1.05% | None |

The Company’s interest expenses recognized in profit and loss in 2019 and 2018 were NT$5,340 and NT$3,353, respectively.

(XIII) Other payables

| | 2019.12.31 | 2018.12.31 |
|---|---|---|
| Salary and bonus payables | $ 288,090 | $ 319,352 |
| Payable on equipment | 58,026 | 41,100 |
| Remuneration to employees and Directors | 35,964 | 53,348 |
| Others | 68,794 | 73,412 |
| | $ 450,874 | $ 487,212 |

(XIV) Pension

3. (8) The Company has a defined benefit pension plan in accordance with the Labor Standards Act, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to adopt the pension mechanism under the Act. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company monthly contributes 2% of the total salary as a pension fund, which is deposited in a designated account with the Bank of Taiwan under the name of the Supervisory Committee of Labor Retirement Reserve. Also, the Company annually assesses the balance in the aforementioned labor pension reserve account by December 31. If the account balance is insufficient for the pension calculated by the aforementioned method to the employees expected to qualify for retirement in the following year, the Company will make contribution for the deficit by next March.

(9) The amounts recognized in the balance sheet are as follows:

| | 2019.12.31 | 2018.12.31 |
|---|---|---|
| Present value of defined benefit obligation | $ 12,739 | $ 11,614 |
| Fair value of benefit plan assets | ( 2,409) | ( 2,164) |
| | 10,330 | 9,450 |
| Unadjusted amount for the period | ( 21) | 766 |
| Recognized in net profit or loss in balance sheet | $ 10,309 | $ 10,216 |

(10) Changes in net defined benefit liabilities are as follows:

| | Present value of defined benefit obligation | Fair value of benefit plan assets | Net defined benefit liabilities |
|---|---|---|---|
| 2019 | | | |
| Balance as of January 1 | ($ 11,614) | $ 2,164 | ($ 9,450) |
| Current service costs | ( 299) | - | ( 299) |
| Interest income (expense) | ( 116) | 21 | ( 95 |
| | ( 12,029) | 2,185 | ( 9,844) |
| Remeasurement: | | | |
| Return on plan assets (excluding interest revenue or expenses) | - | 74 | 74 |
| Changes in financial assumptions | ( 385) | - | ( 385) |
| Experience adjustment | ( 325) | - | ( 325) |
| | ( 710) | 74 | ( 636) |
| Allocation of pension funds | - | 150 | 150 |
| Unadjusted amount for the period | - | - | 21 |
| Balance as of December 31 | ($ 12,739) | $ 2,409 | ($ 10,309) |

| | Present value of defined benefit obligation | Fair value of benefit plan assets | Net defined benefit liabilities |
|---|---|---|---|
| 2018 | | | |
| Balance as of January 1 | ( 10,817) | $ 1,945 | ($ 8,872) |
| Current service costs | ( 287) | - | ( 287) |
| Interest income (expense) | ( 119) | 21 | ( 98) |
| | ( 11,223) | 1,966 | ( 9,257) |
| Remeasurement: | | | |
| Return on plan assets (excluding interest revenue or expenses) | - | 54 | 54 |
| Changes in financial assumptions | ( 128) | - | ( 128) |
| Experience adjustment | ( 263) | - | ( 263) |
| | ( 391) | 54 | ( 337) |
| Allocation of pension funds | - | 144 | 144 |
| Unadjusted amount for the period | - | - | ( 766) |
| Balance as of December 31 | ($ 11,614) | $ 2,164 | ($ 10,216) |

(11) The fund asset of the Company's defined benefit pension plan ("the Fund") is entrusted to the Bank of Taiwan, which manages, or entrusts others to manage the Fund in accordance with entrusted items enumerated in Article 6 of the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund (i.e., deposit in domestic or foreign institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, and investment in domestic or foreign real estate and its securitization products) to the extent of limitations on investment percentage and amount as stipulated in the Fund’s annual utilization plan. With regard to the utilization of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts

accrued from two year time deposits with the interest rates offered by local banks. If the earnings are less than the aforementioned rates, the government shall make payment for the deficit after being authorized by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan asset fair value in accordance with paragraph 142 of IAS 19. The composition of fair value of plan assets as of December 31, 2019 and 2018 is given in the Annual Labor Retirement Fund Utilization Report announced by the government.

(12) The principal actuarial assumptions used were as follows:

| | 2019 | 2018 |
|---|---|---|
| Discount rate | 0.70% | 1.10% |
| Future salary increase rate | 3.00% | 3.00% |

The assumptions about the future mortality rate in the 2019 and 2018 are estimated according to the fifth life experience table in Taiwan.

The analysis of the present value of the defined benefit obligations affected by changes in the main actuarial assumptions used is as follows:

| | Discount rate | | Future salary increase rate | |
|---|---|---|---|---|
| | Increase by 0.25% | Decrease by 0.25% | Increase by 0.25% | Decrease by 0.25% |
| 2019.12.31 | | | | |
| Effect on present value of defined benefit obligation | ($ 322) | $ 332 | $ 292 | ($ 285) |
| 2018.12.31 | | | | |
| Effect on present value of defined benefit obligation | ($ 317) | $ 328 | $ 292 | ($ 284) |

The sensitivity analysis above was based on one assumption which changed while the other conditions remain unchanged. In practice, more than one assumption may change all at once. The method of analyzing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

(13) Expected contributions to the defined benefit pension plans of the Company are $ 153 for the year ended December 31, 2020.

(14) As of December 31, 2019, the weighted average duration of the retirement plan is 10 years. The maturity analysis of the pension payments is as follows:

| | |
|---|---|
| Within 1 year | $ 326 |
| 1 - 2 years | 132 |
| 2 - 5 years | 397 |
| Over 5 years | 5,138 |

| | |
|---|---|
| $ | 5,993 |

4. (5) Effective since July 1, 2005, the Company has established a defined contribution pension plan ("the Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. Nationality. Under the Plan, the Company monthly contributes an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.

   (6) For the years ended December 31, 2019 and 2018, the net pension costs recognized under the defined contribution plan were NT$28,097 and NT$26,496, respectively.

(XV) Share-based payments

1. In 2019 and 2018, the Company's share-based payment agreement provided as follows:

| Type of agreement | Grant date | Quantity granted | Contract period | Vesting conditions |
|---|---|---|---|---|
| Subsequent to 2008 Eon Silicon Solution Inc.'s employee share purchase plan | June 1, 2008 and Aug. 1, 2008 | 5,000 thousand shares (Note 2) | 10 years | Note 1 |
| Subsequent to 2010 Eon Silicon Solution Inc.'s employee share purchase plan | Aug. 10, 2010, Oct. 15, 2010 and Jan. 13, 2011 | 4,000 thousand shares (Note 2) | 10 years | Note 1 |
| Subsequent to 2013 Eon Silicon Solution Inc.'s employee share purchase plan | 102.8.19 | 7,500 thousand shares (Note 2) | 10 years | Note 1 |

Note 1. Percentages of subscription vesting after 2, 3 and 4 years of service were 50%, 75% and 100%.

Note 2. The Company succeeded the employee share subscription plan of Eon Silicon Solution Inc. The date or amount of share subscription are the same as the original plan. After the merger with Eon Silicon Solution Inc., the Company succeeded the outstanding employee share subscription options of 262 thousand shares, 219 thousand shares, and 688 thousand shares in 2008, 2010 and 2013, respectively.

The said share-based payment arrangements are all settled in equity.

2. Detailed information on the said share-based payment arrangements is as follows:

Employee share subscription plan succeeded from Eon Silicon Solution Inc.:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Number of stock options | Weighted average Exercise price | Number of stock options | Weighted average Exercise price |
| Outstanding stock options as of January 1 | 621 | $ 62.3~319.0 | 880 | $ 65.9~337.4 |
| Abandoned share option for the period | ( 78) | - | ( 73) | - |
| Overdue share option for the period | - | - | ( 186) | - |
| Outstanding stock options as of December 31 | 543 | $ 59.2~303.4 | 621 | $ 62.3~319.0 |
| Exercisable stock | 543 | | 621 | |

3. There were no share options executed in 2019 and 2018.
4. As of December 31, 2019 and 2018, the exercise prices of the outstanding share option range between NT$59.2 ~ NT$303.4 and NT$62.3 ~ NT$319.0, respectively. The weighted average remaining contract period were 3.64 years and 4.64 years, respectively.
5. The abovementioned share-based payment transactions incurred in 2019 and 2018 were both NT$0.

(XVI) Share capital

1. As of December 31, 2019; the Company's rated capital was NT$3,500,000, divided into 350,000 thousand shares (including 20,000 thousand employee stock option certificate subscription shares). The paid-up capital is NT$2,857,589, with par value of NT$10.

   Quantities of the Company's outstanding common shares at the beginning and ending of periods were reconciled as follows:

   Shares: thousand shares

| | 2019 | 2018 |
|---|---|---|
| Outstanding shares as of January 1 | 272,320 | 272,320 |
| Outstanding shares as of December 31 | 272,320 | 272,320 |
| Treasury shares at the end of the period | 13,439 | 13,439 |
| Number of shares issued as of December 31 | 285,759 | 285,759 |

2. Treasury stock

   Due to operation strategies of its parent company, the Company's subsidiary - Jie Yong Investment Co., Ltd., held 13,439 thousand shares in the Company as of December 31, 2019 and 2018, with face value of NT$328,048, an average face value of NT$24.4 per share, fair value of NT$38.9 and NT$30.05, perspectively.

(XVII) Capital surplus

According to the Company Act, capital surplus arising from paid-in capital in excess of par value on the issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to stockholders in proportion to their share ownership, provided that the Company has no accumulated deficit. In accordance with regulations in the Securities and Exchange Act, when the abovementioned capital reserve is used for capitalization, the annual total amount shall not exceed 10% of the paid-in capital. Capital surplus shall not be used to cover accumulated deficit unless the legal reserve is insufficient.

| | 2019 | | | | |
|---|---|---|---|---|---|
| | Treasury stock transactions | Investments under equity method | Employee share option | Others | Total |
| January 1 | $ 1,661 | $ 49,710 | $ 3,913 | $ 3,788 | $ 59,072 |
| Recognition of effects from all equity changes in subsidiaries - Cash dividends | - | 1,146 | - | - | 1,146 |
| Disposal of subsidiaries | - | 35,475 | - | - | 35,475 |
| Adjustment to surplus reserve from dividends paid to subsidiary | - | 8,438 | - | - | 8,438 |
| Changes in equity of associates and joint ventures udner equity method | - | 180 | - | - | 180 |
| Dividends that are not collected before the designated date shall be transferred to capital surplus | - | - | - | 39 | 39 |
| Adjustment for dividends that are not collected before the designated date | - | - | - | ( 45) | ( 45) |
| December 31 | $ 1,661 | $ 94,949 | $ 3,913 | $ 3,782 | $104,305 |

| | 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Shares premium | Treasury stock transactions | Investments accounted for using equity method | Employee share option | Others | Total |
| January 1 | $68,929 | $ 1,661 | $42,142 | $ 3,913 | $ - | $116,645 |
| The distribution of cash dividend from capital surplus | ( 68,929) | - | - | - | - | ( 68,929) |
| Recognition of effects from all equity changes in subsidiaries - Cash dividends | - | - | 1,146 | - | - | 1,146 |
| Recognition of effects from all equity changes in subsidiaries - Non-controlling | - | - | ( 69) | - | - | ( 69) |
| The changes in the net value of shares issued by subsidiaries not recognized in proportion to the shareholding | - | - | ( 6,117) | - | - | ( 6,117) |
| Adjustment to surplus reserve from dividends paid to subsidiary | - | - | 12,608 | - | | 12,608 |
| Dividends that are not collected before the designated date shall be transferred to capital surplus | - | - | - | - | 3,788 | 3,788 |
| December 31 | $ - | $ 1,661 | $49,710 | $ 3,913 | $3,788 | $ 59,072 |

(XVIII) Retained earnings

1. According to the Company's Articles of Incorporation, the current year's earnings, if any, shall be distributed in the following order:

   (1) Pay taxes

   (2) Set off deficits

(3) Appropriate 10% as legal reserve

(4) Appropriate for special reserve if necessary

(5) The remaining shall be allocated as dividends for shareholders and will be distributed according to the ratio of shareholdings or withheld as accumulated earnings pursuant to the resolution from the Shareholders' Meeting.

2. Dividend policy

The Company is still in the growth stage. If more than 5% of the total surplus is determined to be distributed as dividends, it shall be distributed in form of cash and the rest will be distributed in the form of shares.

3. Legal reserves may only be used for offsetting deficits and issuing new shares or distributing cash in proportion to shareholders' original holdings. However, when new shares are issued or cash is distributed, the amount shall be limited to 25% of the reserves in excess of the paid-in capital.

5. (3) In accordance with the regulations, the Company shall set aside special surplus reserve from the debit balance on other equity items on the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.

(4) At the initial adoption of IFRSs, the Company appropriates a special reserve according to Jin-Guan-Zheng-Fa-Zi Letter No. 1010012865 dated April 6, 2012. When the Company subsequently uses, disposes or reclassifies the relevant assets, it reverses the proportion of the original special reserve. If the aforementioned related assets are investment properties, the part of the land will be reversed during the disposal or reclassification, and the part other than land will be reversed during the period of use.

5. The Company passed the motion of the distribution of 2017 profit at the Board Meeting on March 22, 2018. It is proposed to appropriate NT$86,517 as a legal reserve and distribute cash dividends of NT$571,518 at NT$2 per share. Such surplus distribution was approved at the Shareholders' Meeting on June 14, 2018.

6. The Company passed motion to distribute NT$68,929 by cash from capital surplus, at NT$0.24121454 per share at the Board Meeting on March 22, 2018. The aforementioned distribution of 2017 capital surplus was passed by the Shareholders’ Meeting on June 14, 2018.

7. The Company passed the motion of the distribution of 2018 profit at the Board Meeting on March 18, 2019. It is proposed to appropriate NT$70,651 as a legal reserve and distribute cash dividends of NT$428,638 at NT$1.5 per share. Such surplus distribution was approved at the Shareholders' Meeting on June

13, 2019.

8. The Company passed the motion of the distribution of 2019 profit at the Board Meeting on March 20, 2020. It is proposed to appropriate NT$49,804 as a legal reserve and distribute cash dividends of NT$285,759 at NT$1 per share. The aforementioned surplus distribution has not been approved at the Shareholders' Meeting.

(XIX) Operating income

| | 2019 | 2018 |
|---|---|---|
| Revenue from customers contracts | $ 11,964,770 | $ 11,491,609 |

1. Disaggregation of revenue from customer contracts

The Company derives revenue from the transfer of goods over time and at a point in time in the following major product lines and geographical regions:

| 2019 | Domestic | Asia | Others | Total |
|---|---|---|---|---|
| Integrated circuit | $5,145,958 | $6,633,214 | $ 185,598 | $11,964,770 |

| 2018 | Domestic | Asia | Others | Total |
|---|---|---|---|---|
| Integrated circuit | $5,004,235 | $6,272,685 | $ 214,689 | $11,491,609 |

2. Contract liabilities

The contract liabilities in relation to contract with customers recognized by the Company are as follows:

| | 2019.12.31 | 2018.12.31 | Jan. 1, 2018 |
|---|---|---|---|
| Contract liabilities – advance from customers | $ 3,949 | $ 2,440 | $ 10,494 |

Revenue recognized that was included in the contract liability balance at the beginning of the period:

| | 2019 | 2018 |
|---|---|---|
| Contract liabilities – Advanced from customers | $ 2,405 | $ 9,095 |

(XX) Other revenue

| | 2019 | 2018 |
|---|---|---|
| Interest income: | | |
| Interest from bank deposits | $ 24,706 | $ 28,403 |
| Interest income from financial assets at amortized cost | 1,982 | 638 |
| Other interest incomes | 1,291 | 1,154 |
| Total interest income | 27,979 | 30,195 |
| Dividend income | 11,498 | 9,828 |
| Rent income | 6,532 | 6,039 |
| Other income – Others | 32,688 | 31,210 |
| | $ 78,697 | $ 77,272 |

(XXI) Other gains or losses

| | 2019 | 2018 |
|---|---|---|
| Net profit (loss) on foreign exchange | ($ 23,019) | $ 41,928 |
| Loss on financial assets measured at fair value through profit or loss | ( 19,145) | ( 41,577) |
| Impairment losses | ( 12,057) | ( 25,047) |
| Other expenses | ( 970) | ( 1,199) |

| | 2019 | 2018 |
|---|---|---|
| | ($ 55,191) | ($ 25,895) |

(XXII) Financial costs

| | 2019 | 2018 |
|---|---|---|
| Interest expenses: | | |
| Borrowings from banks | $ 5,340 | $ 3,353 |
| Provisions - Discount amortization | 1,291 | 1,181 |
| Lease liabilities | 1,075 | - |
| Total interest expenses | 7,706 | 4,534 |
| Others | 1,009 | 347 |
| | $ 8,715 | $ 4,881 |

(XXIII) Additional information on the nature of these expenses

| | 2019 | 2018 |
|---|---|---|
| Employee benefits expenses | $ 841,063 | $ 892,709 |
| Depreciation expenses of property, plant, and equipment | 382,730 | 393,173 |
| Depreciation expenses of right-of-use assets | 8,393 | - |
| Depreciation expenses of investment property | 970 | 728 |
| Amortization expenses of intangible assets | 84,226 | 82,195 |
| | $ 1,317,382 | $ 1,368,805 |

(XXIV) Employee benefits expenses

| | 2019 | 2018 |
|---|---|---|
| Salaries and wages | $ 744,290 | $ 800,704 |
| Labor insurance and national health insurance | 46,474 | 42,897 |
| Pension expenses | 28,641 | 27,025 |
| Remuneration to Directors | 7,326 | 8,499 |
| Other personnel cost | 14,332 | 13,584 |
| | $ 841,063 | $ 892,709 |

1. Pursuant to the Articles of Incorporation, the Company shall set side no less than 5% as remuneration to employees and 1% as remuneration to Directors and Supervisors from the net profit before tax minus the amount of distributed employee remuneration, and Director and Supervisor remuneration.
2. For the years ended December 31, 2019, and 2018, the Company recognized remuneration to employees in the amounts equal to NT$29,970 and NT$44,457, respectively, and remuneration to Directors and Supervisors in the amounts equal to NT$5,994 and NT$8,891 respectively, all presented under payroll expense.

   In 2018, it is estimated to allocate 5% and 1%, respectively, depending on the earnings.
3. Employees' remuneration and Directors' remuneration of the Board of Directors' resolution for the year ended December 31, 2018 were equal to the amount recognized in the financial statements for the year ended December 31, 2018.

4. Information on the remunerations for employees and Directors and Supervisors which were approved by the Board of Directors of the Company can be obtained from the Market Observation Post System (MOPS).

(XXV) Income tax

1. Income tax expense

(1) Components of income tax expense:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| Current income tax: | | | | |
| Income tax incurred in current period | $ | 50,682 | $ | 136,600 |
| Additional tax on undistributed earnings | | 10,378 | | 1,468 |
| Prior year income tax over/underestimation | | 316 | ( | 3,488) |
| Total income tax in the period | | 61,376 | | 134,580 |
| Deferred income tax: | | | | |
| Initial recognition and reversal of temporary differences | | 4,652 | ( | 5,297) |
| Deferred tax | | 4,652 | ( | 5,297) |
| Income tax expenses | $ | 66,028 | $ | 129,283 |

(2) Income tax amounts associated with other comprehensive income: None.

(3) Income tax amounts directly debited or credited to equity: None.

2. Reconciliation between income tax expense and accounting profits:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| Income tax expense at the statutory rate | $ | 112,686 | $ | 167,158 |
| Expenses which shall be excluded in accordance with the provisions of the tax law | | - | | 15,243 |
| Tax exempted income by tax regulation | ( | 1,479) | | - |
| Tax effects from alternative minimum tax | | 3,870 | | 11,552 |
| Prior year income tax over/underestimation | | 316 | ( | 3,488) |
| Tax effects of tax-exempt income | ( | 36,730) | ( | 102,403) |
| Tax effect of temporary differences | ( | 23,013) | | 39,753 |
| Additional tax on undistributed earnings | | 10,378 | | 1,468 |
| Income tax expenses | $ | 66,028 | $ | 129,283 |

3. The amounts of deferred tax assets or liabilities as a result of temporary differences are as follows:

| | 2019 | | | |
|---|---|---|---|---|
| | January 1 | Recognized in profit and loss | Recognized in other comprehensive income | December 31 |
| Deferred income tax assets: | | | | |
| — Temporary differences: | | | | |
| Doubtful debt expenses | $ 48 | $ - | $ - | $ 48 |
| Unrealized exchange losses | 60 | 93 | - | 153 |
| Losses on inventory valuation loss and obsolescence | 2,545 | ( 857) | - | 1,688 |
| Pension liability | 57 | 4 | - | 61 |
| Others | 2,464 | ( 240) | - | 2,224 |
| Subtotal | 5,174 | ( 1,000) | - | 4,174 |
| — Deferred tax liabilities: | | | | |
| Unrealized exchange gains | ( 1,078) | ( 3,653) | - | ( 4,731) |
| Subtotal | ( 1,078) | ( 3,653) | - | ( 4,731) |
| Total | $ 4,096 | ($ 4,653) | $ - | ($ 557) |

| | 2018 | | | |
|---|---|---|---|---|
| | January 1 | Recognized in profit and loss | Recognized in other comprehensive income | December 31 |
| Deferred income tax assets: | | | | |
| — Temporary differences: | | | | |
| Doubtful debt expenses | $ 4 | $ 44 | $ - | $ 48 |
| Unrealized exchange losses | 195 | ( 135) | - | 60 |
| Losses on inventory valuation loss and obsolescence | 916 | 1,629 | - | 2,545 |
| Pension liability | 45 | 12 | - | 57 |
| Others | 1,294 | 1,170 | - | 2,464 |
| Subtotal | 2,454 | 2,720 | - | 5,174 |
| — Deferred tax liabilities: | | | | |
| Unrealized exchange gains | ( 1,350) | 272 | - | ( 1,078) |
| Others | ( 2,305) | 2,305 | - | - |
| Subtotal | ( 3,655) | 2,577 | - | ( 1,078) |
| Total | ($ 1,201) | $ 5,297 | $ - | $ 4,096 |

4. The amounts of deductible temporary differences that were not recognized as deferred tax assets are as follows:

| | 2019.12.31 | 2018.12.31 |
|---|---|---|
| Deductible temporary difference | $ 381,969 | $ 491,508 |

5. The Company's businesses conforming to the "Regulations for Encouraging Manufacturing Enterprises and Technical Service Enterprises in the Newly Emerging, Important, and Strategic Industries" may benefit from the income tax exemption for for-profit businesses for five consecutive years (expired in December 2019).

6. The profit-seeking enterprise income tax of the Company is approved by the taxation authority through 2017.

## (XXVI) Earnings per share

| | 2019 | | |
|---|---|---|---|
| | After-tax amount | Weighted average number of common shares outstanding (in thousand shares) | Earnings per share (NT$) |
| Basic earnings per share | | | |
| Profit for the period attributable to ordinary shareholders of the parent company | $ 497,405 | 280,133 | $ 1.78 |
| Assumed conversion of dilutive potential ordinary shares (Note) | | | |
| Remuneration to employees | | 1,057 | |
| Diluted earnings per share | | | |
| Profit attributable to ordinary shareholders of the parent company considering the assumed conversion of all dilutive potential ordinary stocks | $ 497,405 | 281,190 | $ 1.77 |

| | 2018 | | |
|---|---|---|---|
| | After-tax amount | Weighted average number of common shares outstanding (in thousand shares) | Earnings per share (NT$) |
| Basic earnings per share | | | |
| Profit for the period attributable to ordinary shareholders of the parent company | $ 706,508 | 280,133 | $ 2.52 |
| Assumed conversion of dilutive potential ordinary shares (Note) | | | |
| Remuneration to employees | | 1,725 | |
| Diluted earnings per share | | | |
| Profit attributable to ordinary shareholders of the parent company considering the assumed conversion of all dilutive potential ordinary stocks | $ 706,508 | 281,858 | $ 2.51 |

Note: There was a antidilution effect in 2019 and 2018 due to employee share option. Thus, it is not included for calculation.

## (XXVII) Supplemental cash flow information

1. Investing activities with partial cash paid:

| | 2019 | 2018 |
|---|---|---|
| Purchase of property, plant, and equipment | $ 284,974 | $ 322,833 |
| Add: Beginning equipment payables | 41,100 | 84,669 |
| Less: End equipment payables | ( 58,026) | ( 41,100) |
| Cash paid in the period | $ 268,048 | $ 366,402 |

2. Changes in liabilities from financing activities

| | Short-term borrowings | Short-term notes and bills payable | Lease liabilities | Total financing liability |
|---|---|---|---|---|
| January 1, 2019 | $ 370,000 | $ 99,932 | $ 81,191 | $ 551,123 |
| Changes in financing cash flows | ( 100,000) | ( 99,932) | ( 7,956) | ( 207,888) |
| Interest payments | - | - | ( 1,075) | ( 1,075) |
| Interest expenses | - | - | 1,075 | 1,075 |
| December 31, 2019 | $ 270,000 | $ - | $ 73,235 | $ 343,235 |

| | Short-term borrowings | Short-term notes and bills payable | Total financing liability |
|---|---|---|---|
| Jan. 1, 2018 | $ - | $ - | $ - |
| Changes in financing cash flows | 370,000 | 99,932 | 469,932 |
| 2018.12.31 | $ 370,000 | $ 99,932 | $ 469,932 |

## VII. Related-Party Transactions

### (I) Names of related parties and relationship

| Name | Relationship with the Company |
|---|---|
| Elite Memory Technology Inc. | Subsidiaries of the Company |
| CML Inc. | " |
| Chang Feng Investment Co., Ltd. | " |
| Jie Yong Investment Co., Ltd. | " |
| Elite Investment Services Ltd. | " |
| Elite Semiconductor (B.V.I.) Ltd. | " |
| Eon Silicon Solution (Samoa) Inc. (Note 2) | " |
| Eon Silicon Solutions Inc. USA | " |
| 3R Semiconductor Technology Inc. | Sub-subsidiaries of the Company |
| Elite Silicon Technology Inc. | " |
| Elite Innovation Japan Ltd. | " |
| Elite Semiconductor Memory Technology (Shenzhen) Inc. | " |
| Elite Innovation (B.V.I.) Ltd. (Note 3) | " |
| Elite Semiconductor Microelectronics (Shanghai) Technology Inc. (Note 5) | " |
| Feeling Technology Corp. (Note 4) | The Company's Director as this company's director |
| Arima Lasers Corp. | The Company's subsidiary as this company's director |
| Canyon Semiconductor Inc. | Investee under indirect equity valuation method |

Note 1: Completed the liquidation and liquidation procedures in December 2019.
Note 2: Completed dissolution and liquidation in September 2019.
Note 3: Completed the dissolution and liquidation procedures in September 2019.
Note 4: No longer an affiliate since May 1, 2018.
Note 5: Completed company registration on November 27, 2019.

### (II) Significant transactions with related parties

1. Operating income

| | 2019 | 2018 |
|---|---|---|
| Sales of products: | | |
| - Subsidiaries | $ 71 | $ 290 |
| - Associates | 5,789 | 7,483 |
| | $ 5,860 | $ 7,773 |

There are no significant differences between trading transaction price, collection conditions, and non-affiliates.

2. Other transactions

| | 2019 | 2018 |
|---|---|---|
| Other revenue - Service income | | |
| - Subsidiaries | $ 25,177 | $ 15,577 |
| R&D expenses | | |
| - Subsidiaries | $ 65,336 | $ 51,588 |

3. Other receivables

| | 2019.12.31 | 2018.12.31 |
|---|---|---|
| Other receivables from related parties: | | |
| - Subsidiaries | $ 296 | $ 7,943 |

(III) Remuneration to key management

| | 2019 | 2018 |
|---|---|---|
| Salary and other short-term employees' benefits | $ 36,572 | $ 41,282 |
| Benefits after retirement | 432 | 432 |
| | $ 37,004 | $ 41,714 |

VIII. Pledged Assets

Assets pledged as collateral by the Company are enumerated as follows:

| | Carrying amount | | |
|---|---|---|---|
| Assets | 2019.12.31 | 2018.12.31 | Purpose of pledge item |
| Time deposits (listed in "other current assets") | $ 3,969 | $ 2,267 | Guarantee for the land leased |

IX. Significant Contingent Liabilities and Unrecognized Contractual Commitments

1. Operating lease

Applicable for the annual periods beginning on or after January 1, 2018

The Company's leases of land, plant and office are non-cancellable business lease agreements. Most lease agreements can be renewed at the market price at the end of the lease term. Future minimum lease payments arising from non-cancellable operating leases are stated as follows:

| | 2018.12.31 |
|---|---|
| Less than 1 year | $ 9,067 |
| Later than 1 year and no later than 5 years | 8,083 |
| Over 5 years | 9,867 |
| | $ 27,017 |

2. Unused letters of credit issued

Unused letters of credit issued due to purchases

| | 2019.12.31 | 2018.12.31 |
|---|---|---|
| Unused letters of credit issued | $ - | $ 18,806 |

X. Significant Disaster Losses

None.

XI. Significant Events after the End of the Financial Reporting Period

The allocation of profit has been approved at the Board Meeting on Mar. 20, 2020. Please refer to Note 6 (19) for details.

XII. Others

(I) Capital management

Considering the industrial characteristics, future development, and changes in the environment, the Company plans working capital, research and development expenses and dividends to safeguard the Company's ability to continue as a going concern and to maintain an optimal capital structure, so as to provide returns for shareholders.

To maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, issue new shares or cash to shareholders, or repurchase shares.

The Company's debt-to-capital ratios as at December 31, 2019 and 2018 are stated as below:

| | 2019.12.31 | 2018.12.31 |
|---|---|---|
| Total asset value | $ 10,478,733 | $ 10,335,148 |
| Total liabilities | ( 3,017,273) | ( 2,979,800) |
| Total equity | $ 7,461,460 | $ 7,355,348 |
| Debt-to-capital ratio | 40% | 41% |

(II) Financial Instruments

1. Categories of financial instruments

| | 2019.12.31 | 2018.12.31 |
|---|---|---|
| Financial assets | | |
| Financial assets at fair value through profit and loss | | |
| Financial assets mandatorily measured at fair value through profit or loss | $ 150,841 | $ 210,901 |
| Financial assets at fair value through other comprehensive income | | |
| Designated equity instrument investment | $ 25,388 | $ 29,650 |
| Financial assets measured at cost after amortization | | |
| Cash and cash equivalents | $ 1,817,377 | $ 829,308 |
| Financial assets measured at cost after amortization - current | 140,906 | - |
| Notes receivable | 34 | - |
| Accounts Receivable | 1,160,173 | 1,059,404 |
| Other receivables | 79,745 | 71,929 |
| Time deposits (listed in other current assets) | 3,969 | 2,267 |
| Refundable deposits (listed in other noncurrent assets) | 4,494 | 4,834 |
| | $ 3,206,698 | $ 1,967,742 |
| Financial liabilities | | |
| Financial liabilities measured at amortized cost | | |
| Short-term borrowings | $ 270,000 | $ 370,000 |
| Short-term notes and bills payable | - | 99,932 |
| Notes payable | 1,890 | 1,800 |
| Accounts payable | 2,134,680 | 1,850,943 |
| Other payables | 450,874 | 487,212 |
| Deposits received (listed in other noncurrent liabilities) | 10,067 | 9,957 |
| | $ 2,867,511 | $ 2,819,844 |
| Lease liabilities | $ 73,235 | $ - |

2. Risk management policies

(1) The Company conducts overall risk management and control system to verify, measure and control all kinds of risks (including market risk, credit risk, liquidity risk, and cash flow risk), which allows the management level to effectively control and measure market risk, credit risk, liquidity risk, and cash flow risk.

(2) The Company’s management can effectively control market risk in order to lower the risk, maintain appropriate liquidity position and centralized management of all market risks, with consideration to economic environment,

competition and market value risk under the influence to achieve optimal risk purpose.

3. Significant financial risks and degrees of financial risks

(1) Market risk

Foreign exchange risk

A. The Company operates internationally and is exposed to foreign exchange risk arising from various functional currency exposures, primarily with respect to the USD and CNY. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities.

B. Management has set up a policy to require the Company to manage their foreign exchange risk against their functional currency. The Company is required to hedge their entire foreign exchange risk exposure through the finance department. To manage the foreign exchange risk arising from future commercial transactions and recognized assets and liabilities, the Company uses natural hedging through the finance department. The foreign exchange risk arises when future commercial transactions and recognized assets and liabilities are denominated in foreign currencies other than the entity's functional currency.

C. The Company's businesses involve some non-functional currency operations (the Company's functional currency: NTD) and are thus affected by the exchange rate fluctuation. The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

| | 2019.12.31 | | |
|---|---|---|---|
| **(Foreign currency: Functional currency)** | Foreign currency (thousand) | Exchange rate | Book value (NT$1,000) |
| Financial assets | | | |
| Monetary items | | | |
| USD: NTD | $ 97,806 | 29.980 | $ 2,932,224 |
| Financial liabilities | | | |
| Monetary items | | | |
| USD: NTD | $ 45,751 | 29.980 | $ 1,371,615 |

| | 2018.12.31 | | |
|---|---|---|---|
| **(Foreign currency: Functional currency)** | Foreign currency (thousand) | Exchange rate | Book value (NT$1,000) |
| Financial assets | | | |
| Monetary items | | | |
| USD: NTD | $ 63,830 | 30.715 | $ 1,960,538 |
| Financial liabilities | | | |
| Monetary items | | | |
| USD: NTD | $ 36,989 | 30.715 | $ 1,136,117 |
| JPY: NTD | 7,933 | 0.278 | 2,207 |

E. The total exchange gains (losses), including realized and unrealized arising from significant foreign exchange variation on the monetary items held by the Company for the years ended December 31, 2019 and 2018 amounted to (NT$23,019) and NT$41,928 respectively.

F. The foreign currency market risks of the Company due to material exchange rate fluctuations are analyzed as follows:

| | 2019 | | |
|---|---|---|---|
| | Sensitivity analysis | | |
| (Foreign currency: Functional currency) | Range of change | Effect on (loss) profit | Effected on other comprehensive (loss) profit |
| Financial assets | | | |
| Monetary items | | | |
| USD: NTD | 1% | $ 29,322 | $ - |
| Financial liabilities | | | |
| Monetary items | | | |
| USD: NTD | 1% | ($ 13,716) | $ - |

| | 2018 | | |
|---|---|---|---|
| | Sensitivity analysis | | |
| (Foreign currency: Functional currency) | Range of change | Effect on (loss) profit | Effected on other comprehensive (loss) profit |
| Financial assets | | | |
| Monetary items | | | |
| USD: NTD | 1% | $ 19,605 | $ - |
| Financial liabilities | | | |
| Monetary items | | | |
| USD: NTD | 1% | ($ 11,361) | $ - |
| JPY: NTD | 1% | ( 22) | - |

Price risk

A. The Company’s equity instruments exposed to price risk are those financial assets held at fair value through profit or loss and financial assets at fair value through other comprehensive income. To manage its price risk arising from investments in equity instruments, the Company diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Company.

B. The Company primarily invests in equity instruments and open-end funds issued by domestic companies, and the price of such equity instruments is affected by the uncertainty of the future value of the investment target. If the prices of these equity instruments increased or decreased by 10%, while all other factors remained unchanged, the net profit after tax for the year ended December 31, 2019 and 2018 would have increased or decreased by NT$15,084 and NT$21,090, respectively, measured at fair value through profit and loss. The gain or loss of the other comprehensive income which was classified to the equity investment at fair value through other comprehensive income would have increased or decreased by NT$2,539 and NT$2,965, respectively.

Cash flow and fair value interest rate risk

The Company’s interest rate risk is mainly from short-term borrowings and short-term notes. Borrowings with floating interest rates expose the

Company to cash flow interest rate risks, of which a majority portion is offset by the cash and cash equivalents held with floating interest rates. Borrowings with floating interest rates expose the Company to cash flow interest rate risks, of which a portion is offset by the cash and cash equivalents held with floating interest rates. The borrowing period of the Company at floating rates is shorter than one year. Therefore, there is no significant risk of interest rate changes after evaluation.

(2) Credit risk

A. The Company's credit risk is the risk of financial loss to the Company due to the failure of the customer or counterparty of the financial instrument to perform its contractual obligations, which are mainly resulted from the failure of the counterparty to pay off accounts receivable payable on the terms of collection, and the contractual cash flow of the asset instrument investment measured at amortized cost, and debt instruments at fair values through profit or loss.

B. The Company manages its credit risk in consideration of the entire company's concern. Banks and financial institutions only accept organizations with good credit ratings as their trade counterparties. According to the Company’s credit policy, each local entity in the Company is responsible for managing and analyzing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are based on internal or external ratings, and the use of credit limits is regularly monitored.

C. The Company adopts the assumptions under IFRS 9, the default occurs when the contract payments are past due over 90 days.

D. The Company adopted the following assumptions under IFRS 9 to judge whether there is any evidence that the credit risk of financial instruments has been significantly increased after initial recognition.
If the contract payments were past due over 30 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.

E. The indicators used by the Company to determine credit impairment on debt instrument investments are as follows:

(A) It becomes probable that the issuer will enter bankruptcy or other financial re-organization due to their financial difficulties;

(B) The disappearance of an active market for that financial asset because of financial difficulties;

(C) Default or delinquency in interest or principal repayments;

(D) Adverse changes in national or regional economic conditions that are expected to cause a default.

F. After recourse procedures, the Company reverses the amount of financial assets that cannot be reasonably expected to be recovered. However, the Company will continue to pursue legal procedures for recourse in order to preserve the rights of claims.

G. The financial assets held by the Company and measured at amortized cost are time deposits, bonds with repurchase agreements and restricted time deposits held in banks. The credit ratings of these banks are good, and there has been no overdue in the past. Considering that there are no major changes in the overall economic environment, the Company assesses that the risk of credit losses is extremely low and the amount of impact on the financial statements is not significant.

H. For the aging analysis of customers' accounts receivable and collateral information, please refer to Note 6 (4). Considering the Company's right to request collateral or other guarantees from major transaction partners, the Company categorizes customers' accounts receivable according to the characteristics of the collateral. The Company uses a simplified approach to estimate expected credit losses based on the loss rate method. Based on this assessment, the reserve losses to be recognized by the Company as of December 31, 2019 and 2018 were minimal.

I. Changes in loss allowance for accounts receivables using the simplified approach are stated as follows:

| | 2019 | 2018 |
|---|---|---|
| January 1 | $ 4,289 | $ - |
| Impairment losses | 10,006 | 4,289 |
| December 31 | $ 14,295 | $ 4,289 |

(3) Liquidity risk

A. Cash flow forecasting is performed in the operating entities of the Company and aggregated by Company's finance department. The finance department monitors the cash forecast to ensure that the Company's funds are adequate to finance its operations.

B. The Company's remaining cash in excess of its operating needs is invested in demand deposits bearing interests, time deposits, and marketable securities, all of which are instruments either with appropriate maturity or with sufficient liquidity so as to satisfy the said forecasting and provide sufficient position for dispatching of funds.

C. The following table reflects the non-derivative financial liabilities of the Company and the derivative financial liabilities delivered in net or total amount grouped according to the relevant maturity dates. Non-derivative financial liabilities are analyzed based on the remaining period from the balance sheet date to the contractual maturity date. Derivative financial liabilities are analyzed based on the remaining period from the balance sheet date to the expected maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| Non-derivative financial liabilities: | | | |
|---|---|---|---|
| 2019.12.31 | Within 1 year | 1 to 5 years | Over 5 years |
| Short-term borrowings | $ 270,000 | $ - | $ - |
| Notes payable | 1,890 | - | - |
| Accounts payable | 2,134,680 | - | - |
| Other payables | 450,874 | - | - |
| Lease liabilities | 7,760 | 19,411 | 56,605 |

Derivative financial liabilities: None.

| Non-derivative financial liabilities: | | | |
|---|---|---|---|
| 2018.12.31 | Within 1 year | 1 to 5 years | Over 5 years |
| Short-term borrowings | $ 370,000 | $ - | $ - |
| Short-term notes and bills payable | 100,000 | - | - |
| Notes payable | 1,800 | - | - |
| Accounts payable | 1,850,943 | - | - |
| Other payables | 487,212 | - | - |

Derivative financial liabilities: None.

(III) Fair value information

1. The table below analyzes financial instruments measured at fair value, by valuation method. The different levels have been defined as follows:

   Level I. It refers to the quotation of the same asset or liability in an active market as of the evaluation (before adjustment). A market is regarded active when a market where transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the investment in TWSE/TPEx-listed shares or emerging shares, beneficiary certificates and debt securities of the Company are included in this category.

   Level II. It refers to other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

   Level III. It refers to unobservable inputs for the asset or liability. The fair value of the Company's equity investment without active market is included in this category.

2. The information relating to the fair value of investment property at cost is provided in Note 6 (9).

3. The face values of the Company's financial instruments not measured at fair value are reasonable approximations of their fair values, including cash and cash equivalents, time deposits (over three months), notes receivable, accounts receivable, other receivables, refundable deposits, short-term borrowings, notes payable, notes payable, other payables, lease liabilities (including current and non-current), and guarantee deposits received.

4. The Company categorizes financial and non-financial instruments measured at fair value on the basis of the nature, characteristics, and risks of the assets and liabilities.

The related information is as follows:

(1) The Company classifies assets and liabilities on the basis of its nature. Related information is provided below:

| 2019.12.31 | Level I | Level II | Level III | Total |
|---|---|---|---|---|
| Assets | | | | |
| Recurring fair value | | | | |
| Financial assets at fair value through profit and loss | | | | |
| Equity securities | $ 63,257 | $ - | $ - | $ 63,257 |
| Beneficiary certificates | 53,488 | - | - | 53,488 |
| Debt securities | 34,096 | - | - | 34,096 |
| Financial assets at fair value through other comprehensive income | | | | |
| Equity securities | - | - | 25,388 | 25,388 |
| | $ 150,841 | $ - | $ 25,388 | $ 176,229 |

Financial liabilities: None.

| 2018.12.31 | Level I | Level II | Level III | Total |
|---|---|---|---|---|
| Assets | | | | |
| Recurring fair value | | | | |
| Financial assets at fair value through profit and loss | | | | |
| Equity securities | $ 128,568 | $ - | $ - | $ 128,568 |
| Beneficiary certificates | 50,986 | - | - | 50,986 |
| Debt securities | 31,347 | - | - | 31,347 |
| Financial assets at fair value through other comprehensive income | | | | |
| Equity securities | - | - | 29,650 | 29,650 |
| | $ 210,901 | $ - | $ 29,650 | $ 240,551 |

Financial liabilities: None.

(2) The methods and assumptions the Company used to measure fair value are as follows:

A. The Company adopts market quoted prices as their fair values (i.e., Level 1). The following are the instruments listed by characteristics:

| | TWSE/TPEx-listed and emerging stocks | Open-end fund |
|---|---|---|
| Market quoted price | Closing price | Net value |

B. Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques or by reference to counterparty quotes. The fair value of financial instruments measured by using valuation techniques can be referred to current fair value of instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods, including calculated by applying model using market information available at the standalone balance sheet date.

C. Outputs from valuation models are estimates and valuation techniques may not be able to reflect all the relevant factors of the Company's financial and non-financial instruments. Therefore, the estimated value derived using valuation model is adjusted according to additional inputs, for example, model risk or liquidity risk and etc. In accordance with the Company's management policies and relevant control procedures relating to the valuation models used for fair value measurement, management believes adjustment to valuation is necessary in order to reasonably represent the fair value of financial and non-financial instruments at the standalone balance sheet. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market conditions.

5. For 2019 and 2018, there was no transfer between Level I and Level II.
6. The following table presents changes in Level III in 2019 and 2018:

| | Equity securities | |
|---|---|---|
| | 2019 | 2018 |
| January 1 | $ 29,650 | $ - |
| Acquisition for the period | - | 29,650 |
| Evaluation adjustment | ( 4,262) | - |
| December 31 | $ 25,388 | $ 29,650 |

7. The financial instrument evaluation team of the Company’s Risk Management Department is responsible for independent fair value verification. The data from an independent source is used to bring the evaluation results close to the market, to confirm that the data sources are independent, reliable, consistent with other resources, and representing executable prices, and regularly calibrate and evaluate the valuation model, performing backtracking tests, updating the input values and information required for the evaluation model, and any other necessary fair value adjustments to ensure that the valuation results are reasonable.
8. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement:

| | December 31, 2019 Fair value | Valuation technique | Significant unobservable input value | Interval (weighted-average) | Relationship between input value and fair value |
|---|---|---|---|---|---|
| Non-derivative equity instruments: | | | | | |
| Unlisted shares | $ 25,388 | Comparable company analysis | Discount for lack of marketability | 40% | Insufficient market liquidity; the higher the discount, the lower the fair value |

| | December 31, 2018 Fair value | Valuation technique | Significant unobservable input value | Interval (weighted-average) | Relationship between input value and fair value |
|---|---|---|---|---|---|
| Non-derivative equity instruments: | | | | | |
| Unlisted shares | $ 29,650 | Recent transaction price | N/A | N/A | N/A |

XIII. Supplementary Disclosures

(I) Information on significant transactions:

1. Financings provided: None.
2. Endorsements/guarantees provided to others: None.
3. Marketable securities held at the end of the period (excluding investment in subsidiaries, associates and joint ventures): Please refer to Appendix Table 1.
4. Accumulated to buy or sell the same marketable securities amount to NT$300 million or more than 20% of the paid-up capital: None.
5. Acquisition of individual real estate properties at costs of at least NT$300 million or 20% of the paid-in capital: None.
6. Disposal of individual real estate properties at prices of at least NT$300 million or 20% of the paid-in capital: None.
7. The amount of purchase and sales with related parties amounts to NT$100 million or more than 20% of the paid-up capital: None.
8. Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: None.
9. Derivative financial instrument transactions: None.
10. Significant inter-company transactions during the reporting periods: None.

(II) Information on investees

Name of investee companies, location, and other relevant information (excluding investee companies in Mainland China): Please refer to Appendix Table 2 for details.

(III) Information regarding investment in the territory of Mainland China

1. Information on investees in mainland China: The establishment of Shenzhen and Shanghai branch offices of the Company's investee under equity method, Elite Semiconductor (B.V.I.) Limited has been approved by Investment Commission of the Ministry of Economic Affairs on March 20, 2008 and June 18, 2009, respectively. The Shenzhen office indirectly established by the Company was approved for cancellation by the Investment Commission of the Ministry of Economic Affairs on December 4, 2018.
2. Basic information: Please refer to Appendix Table 3.
3. Significant transactions with investee companies in mainland China, either directly or indirectly through a business at third location: None.

Elite Semiconductor Memory Technology Inc.
Securities held at the end of the period
December 31, 2019

Appendix table 1

Unit: NTD thousand
(Unless otherwise indicated)

| Holding company | Types and names of securities | Relationship with the securities issuer | Accounting titles in statements | At the end of the period: Number of shares | Book value (Note) | Ratio of shareholding | Fair value | Remarks |
|---|---|---|---|---|---|---|---|---|
| Elite Semiconductor Memory Technology Inc. | Shares of Arima Lasers Corp. | Company's subsidiary as this company's director | Financial assets at fair value through profit and loss | 3,455,000 | $ 62,881 | 13.81 | $ 62,881 | |
| Elite Semiconductor Memory Technology Inc. | Shares of King Yuan Electronics Co., Ltd. | None | Financial assets at fair value through profit and loss | 10,000 | 376 | 0.00 | 376 | |
| Elite Semiconductor Memory Technology Inc. | HSBC FRN Perpetual Bond | None | Financial assets at fair value through profit and loss | 1,000,000 | 23,285 | N/A | 23,285 | |
| Elite Semiconductor Memory Technology Inc. | ANZ FRN Perpetual Bond | None | Financial assets at fair value through profit and loss | 500,000 | 10,811 | N/A | 10,811 | |
| Elite Semiconductor Memory Technology Inc. | BGF Renminbi Bond Fund | None | Financial assets at fair value through profit and loss | 127,986 | 53,488 | N/A | 53,488 | |
| Elite Semiconductor Memory Technology Inc. | Preference share of Turning Point Lasers Ltd. | None | Financial assets at fair value through other comprehensive income | 1,000,000 | 25,388 | 8.06 | 25,388 | |
| Elite Investment Services Ltd. | USD preference share - HSBC bond | None | Financial assets at fair value through profit and loss | 20,000 | 15,590 | N/A | 15,590 | |
| Elite Investment Services Ltd. | HSBC RQFII China Fixed Income Fund | None | Financial assets at fair value through profit and loss | 600,000 | 30,916 | N/A | 30,916 | |
| Chang Feng Investment Co., Ltd. | Shares of King Yuan Electronics Co., Ltd. | None | Financial assets at fair value through profit and loss | 10,000 | 376 | 0.00 | 376 | |
| Chang Feng Investment Co., Ltd. | Shares of AP Memory Technology Corp. | None | Financial assets at fair value through profit and loss | 11,124 | 969 | 0.02 | 969 | |
| Chang Feng Investment Co., Ltd. | Shares of Arima Lasers Corp. | None | Financial assets at fair value through profit and loss | 907,000 | 16,507 | 3.22 | 16,507 | |
| Chang Feng Investment Co., Ltd. | Shares of Ushine Photonics Corp. | None | Financial assets at fair value through profit and loss | 115,519 | 924 | 0.41 | 924 | |
| Chang Feng Investment Co., Ltd. | Shares of Brightek Optoelectric Co., Ltd. | None | Financial assets at fair value through profit and loss | 90,601 | 1,293 | 0.15 | 1,293 | |
| Chang Feng Investment Co., Ltd. | Shares of M3 Technology Inc. | None | Financial assets at fair value through profit and loss | 600,000 | 11,007 | 1.63 | 11,007 | |
| Chang Feng Investment Co., Ltd. | Shares of M2 Communication Inc. | None | Financial assets at fair value through profit and loss | 2,000,000 | 9,020 | 7.89 | 9,020 | |
| Chang Feng Investment Co., Ltd. | Powerchip Semiconductor Manufacturing Corporation | None | Financial assets at fair value through profit and loss | 1,500,000 | 15,150 | 0.05 | 15,150 | |
| Chang Feng Investment Co., Ltd. | Preference shares of Turning Point Lasers Ltd. | None | Financial assets at fair value through other comprehensive income | 1,000,000 | 25,388 | 8.06 | 25,388 | |
| Jie Yong Investment Co., Ltd. | Shares of Elite Semiconductor Memory Technology Inc. | Parent company | Financial assets at fair value through other comprehensive income | 13,439,000 | 522,777 | 4.70 | 522,777 | |

Note: Financial asset evaluation adjustment and cumulative conversion adjustment are included.

Elite Semiconductor Memory Technology Inc.
Name of investee companies, location, and other relevant information (excluding investee companies in mainland China)
January 1 to December 31, 2019

Appendix table 2

Unit: NTD thousand
(Unless otherwise indicated)

| | | | | Original investment amount | | Ending shareholding | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Investor | Name of investee | Location | Principal businesses | Current period-end | End of last year | Number of shares | Ratio | Book value | Profit/loss of the investee for the period | Investment income (loss) recognized by the Company | Remarks |
| Elite Semiconductor Memory Technology Inc. | Elite Memory Technology Inc. | Taiwan | R&D, production, sales and relevant consulting service of integrated circuit | $ 272 | $ 272 | 100,000 | 100 | $ 30,179 | $ 17,396 | $ 17,396 | |
| Elite Semiconductor Memory Technology Inc. | Chang Feng Investment Co., Ltd. | Taiwan | General Investment | 500,000 | 500,000 | 50,000,000 | 100 | 394,670 | ( 12,168) | ( 12,168) | |
| Elite Semiconductor Memory Technology Inc. | CML Inc. | British Virgin Islands | General Investment | - | 122,215 | - | - | - | ( 3,456) | ( 3,456) | Note 7 |
| Elite Semiconductor Memory Technology Inc. | Elite Investment Services Ltd. | British Virgin Islands | General Investment | 449,700 | 449,700 | 15 | 100 | 627,721 | ( 9,837) | ( 9,837) | |
| Elite Semiconductor Memory Technology Inc. | Elite Semiconductor (B.V.I.) Ltd. | British Virgin Islands | General Investment | 168,401 | 149,900 | 1,000 | 100 | 26,627 | ( 29,482) | ( 20,816) | Note 3 |
| Elite Semiconductor Memory Technology Inc. | Jie Yong Investment Co., Ltd. | Taiwan | General Investment | 270,000 | 270,000 | 3,600,000 | 41.86 | 147,009 | 19,868 | ( 121) | |
| Elite Semiconductor Memory Technology Inc. | Eon Silicon Solution (Samoa) Inc. | Samoa | Investigation and research of business situation and industrial technology | - | 1,755 | - | - | - | ( 372) | ( 372) | Note 4 |
| Elite Semiconductor Memory Technology Inc. | Eon Silicon Solutions, Inc. USA | The US | Design, development and testing of products | 13,304 | 13,304 | 200,000 | 100 | ( 1,170) | ( 883) | ( 883) | |
| Chang Feng Investment Co., Ltd. | 3R Semiconductor Technology Inc. | Taiwan | Product design, wholesale and retail of electronic materials, manufacturing of electronic components, information software services and international trade | 69,407 | 69,407 | 10,000,000 | 100 | 22,520 | ( 600) | ( 600) | |
| Chang Feng Investment Co., Ltd. | Elite Silicon Technology Inc. | Taiwan | Product design, wholesale and retail of electronic materials, manufacturing of electronic components, information software services and international trade | 59,288 | 59,288 | 6,031,836 | 79.37 | 550 | ( 16,217) | ( 12,817) | |
| Chang Feng Investment Co., Ltd. | Canyon Semiconductor Inc. | Taiwan | International trade, electronic component manufacturing, product design, and information software services | 80,337 | 77,950 | 8,350,000 | 40.93 | 33,210 | ( 35,589) | ( 13,194) | Note 2 |
| Chang Feng Investment Co., Ltd. | Elite Innovation Japan Ltd. | Japan | Product design, wholesale and retail of electronic materials, manufacturing of electronic components, information software services and international trade | 2,305 | - | 200 | 100 | 2,080 | 22 | ( 226) | Note 5 |

Elite Semiconductor Memory Technology Inc.

Name of investee companies, location, and other relevant information (excluding investee companies in mainland China)

January 1 to December 31, 2019

Appendix table 2

Unit: NTD thousand

(Unless otherwise indicated)

| Investor | Name of investee | Location | Principal business | Original investment amount: Current period-end | Original investment amount: End of last year | Ending shareholding: Number of shares | Ending shareholding: Percentage | Ending shareholding: Book value | Profit/loss of the investee for the period | Investment income (loss) recognized by the Company | Remarks |
|---|---|---|---|---|---|---|---|---|---|---|---|
| CML Inc. | Elite Innovation (B.V.I) Ltd. | British Virgin Islands | General Investment | $ - | $ 93,180 | - | - | $ - | ($ 3,275) | ($ 3,275) | Note 6 |
| Elite Innovation (B.V.I) Ltd. | Elite Innovation Japan Ltd. | Japan | Product design, wholesale and retail of electronic materials, manufacturing of electronic components, information software services and international trade | - | 2,886 | - | - | - | 22 | 204 | Note 5 and 6 |
| Elite Investment Services Ltd. | Elite Semiconductor (B.V.I.) Ltd. | British Virgin Islands | General Investment | - | 155,300 | - | - | - | ( 29,482) | ( 8,666) | Note 3 |

Note 1: The foreign currency investment amount is calculated based on the exchange rate on December 31, 2019.

Note 2: As Chang Feng Investment Co., Ltd. did not participate in Canyon Semiconductor's capital increase by the issuance of shares for cash on March 4, 2019, the shareholding ratio of Chang Feng Investment decreased from 77.95% to 38.21%. In addition, Chang Feng Investment Co., Ltd. purchased shares of Canyon Semiconductor in December 2019, increasing its percentage of shareholding from 38.21% to 40.93%.

Note 3: Elite Investment Services Ltd. sold its 50% equity in Elite Semiconductor (B.V.I.) Ltd. to Elite Semiconductor Memory Technology Inc. on June 27, 2019.

Note 4: Eon Silicon Solution (Samoa) Inc. completed the dissolution and liquidation on September 2, 2019, and sold its 100% equity in Elite Semiconductor Memory Technology (Shenzhen) Inc. to Chang Feng Investment Co., Ltd.

Note 5: Elite Innovation (B.V.I) Ltd. sold its 100% equity in Elite Innovation Japan Ltd. to Chang Feng Investment Co., Ltd. on September 17, 2019.

Note 6: Elite Innovation (B.V.I) Ltd. completed the liquidation procedures in September 2019.

Note 7: CML Inc. completed the liquidation procedures in December 2019.

Elite Semiconductor Memory Technology Inc.
Information regarding investment in the territory of Mainland China - Basic information
January 1 to December 31, 2019

Appendix table 3

Unit: NTD thousand
(Unless otherwise indicated)

| Names of investees in China | Principal businesses | Paid-in capital (Note 5) | Investment methods (Note 1) | Accumulated amount of investment remitted from Taiwan at beginning | Amount of investment remitted or recovered in current period: Outward remittance | Amount of investment remitted or recovered in current period: Recover | Accumulated amount of investment remitted from Taiwan at ending | Profit/loss of the investee for the period | The Company's percentage of ownership directly or indirectly | Investment income (loss) recognized by the Company (Note 2) | Ending book value of investment | The investment income received at the end of the current period | Remarks |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Elite Semiconductor Memory Technology (Shenzhen) Inc. | Technical consultation and service, after-sales service | $ 6,219 | (2) | $ - | $ - | $ - | $ - | $ 317 | 100 | $ 317 | $ 1,918 | $ - | Note 4 and 6 |
| Yi Xi Ge Ma Technology Co., Ltd. | R&D of products | - | (1) | - | - | - | - | - | - | - | - | - | Note 4 and 5 |
| Elite Semiconductor Microelectronics (Shanghai) Technology Inc. | Product design, wholesale and retail of electronic materials, information software services and international trade | - | (1) | - | - | - | - | - | - | - | - | - | Note 7 |

| Company name | Accumulated investment from Taiwan to Mainland China at ending | Amount of investment approved by Investment Commission of MOEA (Note 6) | Investment amount approved by the Investment Commission MOEAIC |
|---|---|---|---|
| Elite Semiconductor Memory Technology Inc. | $ - | $ 50 | $ 4,476,876 |

Note 1: The methods for engaging in investment in mainland China include the three following types:
(1) Direct investment in mainland China.
(2) Reinvestment in mainland China through companies in a third location.
(3) Others.
Note 2: The gain or loss on investment was recognized in the investee's financial statements audited by CPAs.
Note 3: The numbers related to this table are expressed in NTD.
Note 4: The paid-in capital is calculated based on the exchange rate on December 31, 2019.
Due to the merger with Eon Silicon Solution Inc., the Company succeeded the investees of Eon Silicon Solution Inc. The investment amount approved by the Investment Commission of MOEA of the former Eon Silicon Solution Inc. was USD 5,231 thousand.
The cancellation of this investment has been approved on August 7, 2019. On August 7, 2019, the Company obtained the revised investment approved by the Investment Commission of MOEA in Yi Xi Ge Ma Technology Co., Ltd. for USD 1. The Company has sold all its shareholdings in Yi Xi Ge Ma Technology Co., Ltd. in September 2019 and acquired the approval of the Investment Commission of MOEA on Feb. 6, 2020 and completed the cancellation of the company.
Note 6: On August 7, 2019, the Company obtained the revised investment approved by the Investment Commission of MOEA for USD 1,679.
Note 7: Elite Semiconductor Microelectronics (Shanghai) Technology Inc. was established and registered on November 27, 2019. It has not applied for investment to the Investment Commission of the Ministry of Economic Affairs, and it has not yet started operation since December 31, 2019.

VI. If the Company or its affiliates have experienced financial difficulties in the most recent financial year or during the current financial year up to the date of publication of the Annual Report, the manner in which the difficulties will affect the Company's financial situation shall be explained: None.

## Review of Financial Position, Operating Results, and Risk Management

I. Financial Status

Major reasons for changes in assets, liabilities, and shareholders' equity, as well as related effects in the most recent two financial years. If such effects are material, response measures should be elaborated:

Comparative Analysis of Financial Position

Unit: NT$1,000

| Item \ Year | 2019 | 2018 | Difference | |
|---|---|---|---|---|
| | | | Amount | % |
| Current assets | 9,497,077 | 9,206,455 | 290,622 | 3.16 |
| Financial assets at fair value through comprehensive profit or loss - non-current | 50,776 | 59,300 | ( 8,524) | ( 14.37) |
| Investment accounted for using equity method | 33,210 | - | 33,210 | 100.00 |
| Property, plant and equipment | 696,328 | 799,062 | ( 102,734) | ( 12.86) |
| Right-of-use assets | 86,367 | - | 86,367 | 100.00 |
| Net investment assets | 18,671 | 19,641 | ( 970) | ( 4.94) |
| Intangible assets | 81,593 | 133,975 | ( 52,382) | ( 39.10) |
| Other assets | 16,298 | 70,879 | ( 54,581) | ( 77.01) |
| Total assets | 10,480,320 | 10,289,312 | 191,008 | 1.86 |
| Current liabilities | 3,025,945 | 3,011,680 | 14,265 | 0.47 |
| Non-current liabilities | 113,596 | 33,194 | 80,402 | 242.22 |
| Total liabilities | 3,139,541 | 3,044,874 | 94,667 | 3.11 |
| Equity attributable to the parent company | 7,461,460 | 7,355,348 | 106,112 | 1.44 |
| Share capital | 2,857,589 | 2,857,589 | - | - |
| Capital reserves | 104,305 | 59,072 | 45,233 | 76.57 |
| Retained profits | 4,645,411 | 4,576,008 | 69,403 | 1.52 |
| Minority interest | ( 8,524) | – | ( 8,524) | ( 100.00) |
| Treasury shares | ( 137,321) | ( 137,321) | – | – |
| Non-controlling interest | ( 120,681) | ( 110,910) | ( 9,771) | ( 8.81) |
| Total equity | 7,340,779 | 7,244,438 | 96,341 | 1.33 |

Descriptions:

1. Investment accounted for using equity method: Mainly due to the reduction of shareholding in Canyon Semiconductor Inc., which the Company was deemed to have no control after being

evaluated. Therefore, it is removed from the entity during the preparation of the consolidated financial statements.

2. Right-of-use assets: Mainly due to the increase of right-of-use assets in accordance with IFRS16 "Leases".

3. Intangible assets: Mainly due to software amortization and recognition of impairment losses.

4. Other assets: Mainly due to the decrease in equipment prepayments this year.

5. Non-current liabilities: Mainly due to the increase of lease liabilities in accordance with IFRS16 “Leases”

6. Capital reserve: Mainly due to the increase in capital reserve caused by the disposal of subsidiaries.

7. Other equity: Mainly due to the loss of parity of financial assets measured at fair value through other comprehensive profit and loss this year.

8. Future response plan should be explained for those with significant impact: As mentioned in paragraphs 1 to 7 above, the reasons for the differences have no significant impact on the Company.

## II. Financial Performance

The main reasons for the significant changes in operating revenue, operating profit and net profit before tax for the most recent two financial years, and the expected sales volume and its basis, and the possible impact on the Company's financial operations, and the response plans thereof:

Comparative Analysis of Financial Performance

Unit: NT$1,000

| Item | 2019 | 2018 | Increased (Decreased) Amount | Percentage Change |
|---|---|---|---|---|
| Operating Revenue | 11,983,479 | 11,555,124 | 428,355 | 3.71 |
| Gross profit | 1,802,208 | 2,128,927 | ( 326,719) | ( 15.35) |
| Operating Profit (Loss) | 574,943 | 806,415 | ( 231,472) | ( 28.70) |
| Non-operating income and expenses | 1,237 | 41,845 | ( 40,608) | ( 97.04) |
| Net profit before tax | 576,180 | 848,260 | ( 272,080) | ( 32.08) |
| Net gain (loss) from continuing operations in the current period | 505,611 | 716,194 | ( 210,583) | ( 29.40) |
| Loss from discontinued operations | - | - | - | - |
| Net Profit (Loss) | 505,611 | 716,194 | ( 210,583) | ( 29.40) |
| Other comprehensive income (net, after tax) | ( 7,888) | 337 | ( 8,225) | (2,440.65) |
| Total comprehensive income | 497,723 | 716,531 | ( 218,808) | ( 30.54) |
| Net income attributable to parent company | 497,405 | 706,508 | ( 209,103) | ( 29.60) |
| Total comprehensive income attributable to parent company | 489,517 | 706,845 | ( 217,328) | ( 30.75) |

Descriptions:

1. Operating profit (loss): Mainly due to the slowdown of global economic growth this year, resulting in a decrease in the Company's operating gross profit compared with the previous year.
2. Non-operating income and expenses: Mainly due to the increase in net foreign currency exchange losses due to exchange rate appreciation in the current year and the decrease in the year-end evaluation losses of financial assets measured at fair value through other comprehensive profit and loss compared with the previous year.
3. Net profit before tax: In combination with the effects of 1 and 2 above, net profit before tax decreased by approximately 32.08%.
4. Other comprehensive gains and losses for the current period: Mainly due to the increase in the year-end assessment losses of financial assets measured at fair value through other comprehensive gains and losses in the current year.
5. The total comprehensive profit and loss, net income attributable to parent company and the total comprehensive income attributable to owners of the parent: Mainly due to the slowdown of the global economic growth in this year, resulting in a decrease in the Company's operating gross profit compared

with the previous year.

6. The expected sales volume and its basis, the possible impact on the Company's future financial business and the corresponding plan: the expected sales volume and its basis, please refer to "Estimated Sales Volume and Its Basis" on #page 2#. Please refer to "Future Company Development Strategy" on #page 3# for the possible impact of the Company's future financial business and the corresponding plans.

## III. Cash flow

### (I) Analysis of changes in cash flow in the most recent financial year

Unit: NT$1,000

| Initial cash balance | Net cash flow from operating activities of the year | Cash outflow of the year | Cash Balance (Deficit) | Remedial measures for cash deficit | |
|---|---|---|---|---|---|
| | | | | Investment plan | Financial plan |
| 1,873,828 | 1,849,420 | ( 966,245) | 2,757,003 | — | — |

### (II) Liquidity analysis for the most recent financial year

| Item \ Year | 2019 | 2018 | Percentage Increase (Decrease) |
|---|---|---|---|
| Cash Flow Ratio (%) | 61.12 | - | 100.00% |
| Cash flow Sufficiency Ratio (%) | 28.20 | 17.02 | 65.69% |
| Cash Reinvestment Ratio (%) | 15.60 | - | 100.00% |

Description: The cash flow ratio, cash flow sufficiency ratio and cash reinvestment ratio incre ased. Although the revenue increased this year, due to the estimated future sales, the continuous inventory destocking has resulted in a substantial increase in cash flow fro m operating activities compared with the previous year.

### (III) Analysis of the cash liquidity of the coming year:

Unit: NT$1,000

| Initial cash balance | Net cash flow from operating activities of the year | Cash outflow of the year | Cash Balance (deficit) | Remedial measures for | |
|---|---|---|---|---|---|
| | | | | Investment plan | Financial plan |
| 2,757,003 | 439,058 | ( 335,759) | 2,860,302 | — | — |

1: Analysis of cash flow change in 2020:

(1) Operating activities: In this year, due to the expected improvement in business conditions, net cash flow from operating activities is a net inflow.

(2) Investment activities: Mainly due to the increase in new investment and increased photomask required to purchase R&D equipment and new products.

(3) Financing activities: Mainly, cash outflow caused by the issuance of cash dividends.

2. Remedial measures for cash deficit and liquidity analysis: None.

IV. Major capital expenditures in the most recent financial year and their impact on the Company's finances: none

V. Investment policy in the most recent financial year, main causes for profit or loss, improvement plans and the investment plans for the coming year: None.

VI. Risk Analysis and Assessment

(I) The impact of interest rate, exchange rate fluctuations and inflation on corporate profits and losses and future countermeasures:

(1) Impact on the Company's profit/loss:

Unit: NT$1,000

| Item | 2019 | 2018 |
|---|---|---|
| Net interest income or expense | 40,826 | 48,589 |
| Exchange Gain (Loss) | ( 45,141) | 55,656 |

In terms of inflation, with the decrease in oil prices and the recovery of natural resource prices, the global economy is facing low inflation, which will inevitably affect the cost of purchasing raw materials needed for production. However, the production of the Company is outsourced, and the cost of raw materials and processing costs are mainly determined by the capacity allocation of outsourced processing plants based on the business cycle and market supply and demand. Therefore, it is expected that inflation will have a limited impact on the Company's profit and loss.

(2) Future response measures:

1. Fluctuation of interest rates

The Company maintains close contact with banks and pays attention to changes in the market in order to obtain more favorable borrowing rates from banks. Another major capital expenditure will be to raise funds by issuing corporate bonds to obtain lower capital costs.

2. Fluctuation of exchange rates

The Company's products are mainly priced in US dollars. Recently, the exchange rate of the New Taiwan dollar against the US dollar has fluctuated volatilely, resulting in profit on exchange. In view of this, the Company will strengthen its ability to manage foreign exchange risks. In addition to continuously collecting exchange rate information and fully grasping the exchange rate trends, the bank will be invited to provide professional advice and suggestions to decide when to convert the New Taiwan dollar or keep it in the foreign exchange account. In addition, in terms of the management of foreign exchange positions, funds are dispatched and used to meet foreign exchange expenditures with their own foreign exchange income to effectively reduce exchange risk.

3. Inflation

The Company established a good cooperative relationship with the wafer foundry and back-end packaging and testing plants to ensure that the production capacity can be obtained and obtain stable processing prices, and through the provision of technical services for product design, actively develop cooperation with other domestic and foreign foundries Besides, the Company obtained more diversified resources of wafer foundry manufacturers, thereby reducing the impact of inflation.

(II) Policies of engaging in high-risk, high-leverage investments, loans to others, providing endorsements/guarantees and derivatives transactions, main reasons for the profits and losses generated thereby and future response measures to be undertaken:

The Company has not engaged in high-risk, high-leveraged investment and derivative financial commodity transactions in the most financial recent year and up to the date of publication of the prospectus. The object of loan and endorsement guarantee of funds is limited to the subsidiaries, and it is handled in accordance with the provisions of the "Operational Procedures for Loaning Funds to Others" and "Procedures of Provision of Endorsements/Guarantees". As of the date of publication of the public statement in 2018 and 2019 of the Company, there was no loan to others.

(III) Future R&D plans and expected investments in R&D:

(1) The products operated by the Company are highly changing industries. Therefore, it is necessary to leverage on market opportunities, launch new products, and develop new processes to reduce costs.

(2) The competitiveness of the Company is sustained by its research and development capabilities. The Company will continue to invest in research and development expenditures, and continue to recruit and train outstanding talents to achieve this goal and create a good business performance for the Company.

(3) Expected R&D investments

| Main R&D projects / new products | Key success factors for R&D projects |
|---|---|
| xMB SDRAM 2Xnm product development project | Existing experience in SDRAM technology |
| xMB DDR2 SDRAM 3Xnm product development project | Existing experience in DDR SDRAM technology |
| xGB DDR3 SDRAM 2Xnm product development project | Existing experience in DDR2 SDRAM technology |

| | |
|---|---|
| xGB DDR4 SDRAM 2Xnm product development project | Existing experience in DDR3 SDRAM technology |
| xMB FLASH 5Xnm product development project | Existing experience in Flash technology |
| Power IC, analog IC product development project | Existing experience in IC, analog IC technology |
| Development of new products | Strong R&D performance and experience |

The estimated R&D expenditure for 2020 is approximately NT$ 800 million.

(IV) The impact of changes in important domestic and foreign policies and laws adopted on the Company's financial operations, and the countermeasures thereof:

(1) The Company's management team has been paying close attention to any policies and laws that may affect the Company's finances and business. In addition, the Company has also cooperated with professional institutions to continue to pay close attention to the development of relevant laws and regulations and to adjust immediately to meet the needs of operations.

(2) Countermeasures

The Company's current operations are in compliance with the relevant existing laws and regulations of domestic and foreign reinvestment countries. The management team will also continue to pay close attention to any changes in policies and laws that may affect the Company's finances and business, as a reference for operations. In addition, the Company also cooperates with professional organizations to pays close attention to the development of relevant laws and regulations, and immediately adjusts its strategy to meet the needs of operations. Therefore, the Company can timely manage and respond to important domestic and foreign policy and legal changes.

(V) Impact of technological and market changes on the Company’s finances and business, and the countermeasures thereof:

(1) Impact on the Company's finance and business due to technological and industrial changes, and the countermeasures thereof

The company is one of the leading manufacturers in its industry. Technology R&D and innovation are the indispensable elements of the Company's operations, and it is also the Company's main competitive niche. Therefore, technological changes have a positive effect on the Company's financials.

(2) Countermeasures

The Company will continue to strengthen its research and development capabilities, pay attention to domestic and foreign technology and market development directions at all times, and strengthen cash flow management and maintain a stable financial structure in order to diversify operating risks in response to the Company's operational needs.

(VI) The impacts of the change of corporate image on the enterprise crisis management, and the countermeasures thereof:

The Company focuses on its business operation and has achieved outstanding performance, and it is committed to distributing the business results back to the shareholders. The corporate image has always been good, and the Company publishes all messages through a spokesperson or agent spokesperson, who can provide timely explanations in regards to reports and news that could affect the Company's image, so there is no threat to the corporate image. In the future, while pursuing the maximization of shareholders' interests, the Company will continue to fulfill its corporate social responsibilities and improve the corporate image.

(VII) The expected benefits and possible risks to engage in mergers and acquisitions (M&A), and the countermeasures thereof: None.

(VIII) Expected benefits, possible risks and countermeasures for the expansion of plants: The Company currently has no plans to expand the plants.

(IX) Risks associated with over-concentration in procurement and sales, and the countermeasures thereof:

(1) Risk of concentrated procurement

The Company is a professional IC design company. The main raw materials in the production process are wafers and lead frames. The wafers are produced by wafer foundries. Since China is the world's largest wafer foundry production area, meanwhiles there are only few wafer foundries in domestic industry. Therefore, domestic IC design companies generally in the industry tends to have their purchasing concentrated in a certain wafer foundry. In addition to continuing to establish good cooperative relations with wafer foundries to ensure production capacity, the Company actively develops cooperative relations with other domestic and foreign wafer foundries by providing technical services for product design to diversify the concentration of incoming purchases.

(2) Risk of concentrated sales

Based on the consideration of professional division of labor and emphasis on efficiency, most products are mainly sold through agents. In recent years, sales of goods have gradually deviated from focusing on the few particular customers. In response to the growing trend of the company and industry in the future, the Company will further diversify appropriately and diversify its future sales targets to maintain a more balanced and stable operating result, which is the goal of the Company's continuous efforts.

(X) Impact and risks resulted from major equity transfer or replacement from the Directors, Supervisors, or major shareholders holding more than 10% of the Company's shares, and the countermeasures thereof:

(XI) The effect upon and risk to the Company associated with any change in governance personnel or top management and response measures being or to be taken: None.

(XII) If there has been any substantial impact upon shareholders' equity or prices for the Company's securities as a result of any litigation, non-litigious proceeding, or administrative dispute involving the Company that was finalized or remained pending, the facts in dispute, amount in dispute, commencement date, main parties involved, and current status of the case up to the publication date of this Annual Report shall be disclosed: None.

(XIII) Other material risks and countermeasures: None

VII. Other important matters:

Information Security Policy and Management Plan

## 1. Information Security Management Framework

The Information Technology Department is responsible for information security and formulating and implementing information security policies. Every three months, the information security implementation plan and implementation status are reported to the management to ensure the continuous and effective operation of the internal security management mechanism.

The Internal Audit Department is the audit unit of the Information Technology Department. If the audit discovers any discrepancies, the department shall require the audit unit to propose relevant improvement plans and regularly track the improvement results to reduce internal security risks.

The organization's operation mode adopts PDCA (Plan-Do-Check-Act) circular management to build a complete security management system to effectively prevent the occurrence of information security incidents, ensure the achievement of information security goals, and continue to optimize and improve.

## 2. Information Security Policy

This policy is to protect the security of all information assets of Elite Semiconductor Memory Technology Inc., and to prevent internal or external, intentional or accidental threats and destruction that may result in business failure or information tampering, fetching or damage, so as to fulfill our goal of sustainability operation.

1. Definition of Information Security

Protect the Company's information and information systems from unauthorized entry, use, disclosure, destruction, modification, inspection, recording and destruction, and maintain the availability of existing information systems.

II. Information Security Objective

1. Ensure the confidentiality of business-related information and protect company confidentiality.
2. Ensure the integrity and availability of business-related information.
3. Improve Information Security Protection Capabilities.

3. Scope of Information Security

This policy applies to various information systems within the Company, internal colleagues, and vendors and third-party personnel who have access to business information or provide services.

## 3. Information Security Management Solution

The Company has invested in hardware equipment electronic insurance for business assets, such as information systems, network equipment and other information equipment, and avoids equipment being stolen or malicious damage through security monitoring operations. In view of the fact that information security is an emerging type of insurance, considering the comprehensive effect of topics such as insurance coverage, claims coverage, claims identification, and qualifications of identification institutions, the Company will not purchase information security insurance for the time being after evaluation. However, in response to the challenges faced by information security, such as APT advanced persistent attacks, DDos attacks, ransomware, social engineering, and stolen funds and other security issues, the following strategies have been adopted: Keep track of the changes in the information environment in accordance with the Company 's information security policy, and develop information security protection mechanisms and solutions with reference to technical information. Join ISAC to obtain the latest attack information and take appropriate defensive countermeasures. Conduct regular safety inspections, information security and health consultations, social security and information security drills, strengthen the Company 's colleagues' awareness on security crisis and their responsiveness, in order to prevent in advance and effectively identify and prevent proliferation immediately.

## 4. Information Security Management Measures, including:

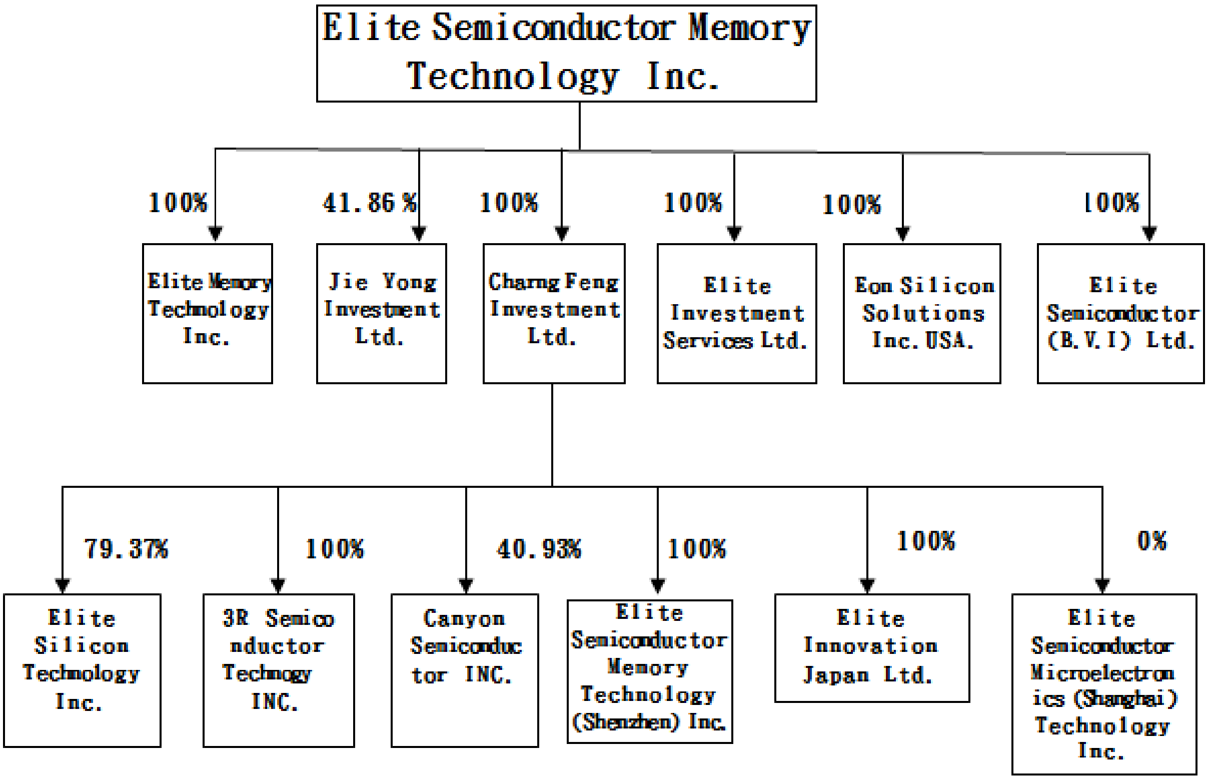
| Information Security Management | | |
|---|---|---|
| **Type** | Description | Relevant Operation |
| **Access control** | Management measures for personnel account, authority management and system operation behavior | ● Personnel account permission management and review<br>● Periodic check of personnel account permissions |
| **Access control** | Control measures for personnel to access internal and external systems and data transmission channels | ● Internal/external access control measures<br>● Confidential information leakage control<br>● Operation behavior track record |
| **External threat** | Potential internal weaknesses, poisoning pipelines and protective measures | ● Host/computer weakness protection and update measures<br>● Virus protection and malware detection<br>● Network threat monitoring |
| **System availability** | System availability and measures to deal with service interruption | ● System/network availability monitoring and notification mechanism<br>● Contingency measures for service interruption<br>● Information backup measures, local/offsite backup mechanism<br>● Regular disaster recovery drills |

# Special Disclosures

I. Information about the Company's Affiliated Companies

1. Organization Structure of Affiliated Companies

2019/12/31



2. Basic Information of Affiliated Companies

Unit: NT$

| Name | Date of Incorporation | Address | Actual Paid-in Capital | Primary Business |
|---|---|---|---|---|
| Elite Memory Technology Inc. | 1992.11.05 | 1/F, No. 13, Lane 24, Minxiang 1st Street, East District, Hsinchu City | NT$ 1,000,000 | Research and development, production, sales and related consulting services of integrated circuit |
| Charng Feng Investment Ltd. | 200.05.22 | 1/F, No. 13, Lane 24, Minxiang 1st Street, East District, Hsinchu City | NT$ 500,000,000 | General investment |
| Elite Investment Services Ltd. | 2006.07.04 | Citio Building P.O.Box 662,Road Town Tortola, British Virgin Islands | US$ 15,000,000 | General investment |
| Elite Semiconductor (B.V.I) Ltd. | 2007.07.05 | Citio Building P.O. Box 662, Road Town Tortola, British Virgin Islands | US$ 10,000,000 | General investment |
| Jie Yong Investment Ltd. | 2009.01.16 | 2/F, No. 13, Lane 24, Minxiang 1st Street, East District, Hsinchu City | NT$ 86,000,000 | General investment |
| 3R Semiconductor Technology Inc. | 2004.11.22 | 1/F, No. 13, Lane 24, Minxiang 1st Street, East District, Hsinchu City | NT$ 100,000,000 | Electronic component manufacturing, information software services, product design, other business services, other consulting services and international trade |
| Elite Silicon Technology Inc. | 2005.04.07 | 5/F, No. 24-2, Gongye East 4th Road, East District, Hsinchu City | NT$ 76,000,000 | Information software services, product design, other business services, other consultancy services, and international trade |
| Canyon Semiconductor Inc. | 2013.06.26 | 3/F, No. 19-1, Gongye East 4th Road, East District, Hsinchu City | NT$ 204,000,000 | Integrated circuit design and manufacturing of electronic components |
| Elite Innovation Japan Ltd. | 2011.12.16 | 4-8-11 Takanawa, Minato-ku, Tokyo | JPY 10,000,000 | Electronic component manufacturing, information software services, product design, other business services, other consulting services and international trade |
| Eon Silicon Solutions Inc. USA | 2003.02.01 | 4699 Old Ironsides Drive, Suite 300 Santa Clara, CA95054 USA | US$ 100,000 | FLASH product design, development and testing |
| Elite Semiconductor Memory Technology (Shenzhen) Inc. | 2011.08.09 | Unit A, Tian'an Digital City I, Futian District, Shenzhen | US$ 200,000 | Technical consultation and service, after-sales service |
| Elite Semiconductor Microelectronics (Shanghai) Technology Inc.( Note 2) | 2019.11.27 | Room 2515, No. 18 Xinjinqiao Road, China (Shanghai) Pilot Free Trade Zone | - | Product design, wholesale and retail of electronic materials, information software services and international trade |

Note 1: The foreign currency investment amount is converted based on the exchange rate on December 31, 2019.

Note 2: Elite Semiconductor Microelectronics (Shanghai) Technology Inc. was established and registered on November 27, 2019, and no investment has been applied to the Investment Commission of MOEA, and as of December 31, 2019, the company has not yet commenced operation.

3. Information on the same shareholders of companies that are considered to have a controlling and subordinate relation: None.

4. The affiliated companies' business and operations, the industries they cover, and their correspondence and division of labor:

| Name | Division of Labor in Interaction |
|---|---|
| Elite Memory Technology Inc. | IC production, sales and related consulting services |
| Charng Feng Investment Ltd. | General investment industry: Not applicable |
| Elite Investment Services Ltd. | General investment industry: Not applicable |
| Elite Semiconductor (B.V.I) Ltd. | General investment industry: Not applicable |
| Jie Yong Investment Ltd. | General investment industry: Not applicable |
| 3R Semiconductor Technology Inc. | R&D, production, sales and related consulting services of MEMS |
| Elite Silicon Technology Inc. | SoC IC R&D, production, sales and related consulting services |
| Canyon Semiconductor Inc. | Power IC R&D, production, sales and related consulting services |
| Elite Innovation Japan Ltd. | IC sales and related consulting services |
| Eon Silicon Solutions Inc. USA | FLASH product design, development and testing |
| Elite Semiconductor Memory Technology (Shenzhen) Inc. | Technical consultation and service, after-sales service |
| Elite Semiconductor Microelectronics (Shanghai) Technology Inc. | Technical consultation and service, after-sales service |

5. Information of Directors, Supervisors and Presidents in all affiliated companies:

December 31, 2019

| Name | Title | Name or Representative | Shareholding | | Remarks |
|---|---|---|---|---|---|
| | | | Number of Shares | Percentage of Shareholding | |
| Elite Memory Technology Inc. | Chairman of the Board and President | Hsing-Hai Chen | 100,000 | 100.00% | Representative of Elite Semiconductor Memory Technology Inc. |
| Charng Feng Investment Ltd. | Chairman of the Board and President | Ming-Chien Chang | 50,000,000 | 100.00% | Representative of Elite Semiconductor Memory Technology Inc. |
| Elite Investment Services Ltd. | Director | Hsing-Hai Chen | 15 | 100.00% | Representative of Elite Semiconductor Memory Technology Inc. |
| | Director | Ming-Chien Chang | 15 | 100.00% | Representative of Elite Semiconductor Memory Technology Inc. |
| Elite Semiconductor (B.V.I) Ltd. | Director | Hsing-Hai Chen | 1,000 | 100.00% | Representative of Elite Semiconductor Memory Technology Inc. |
| Jie Yong Investment Ltd. | Chairman of the Board and President | Hsing-Hai Chen | 800,000 | 9.30% | |
| | Director | Ming-Chien Chang | 400,000 | 4.65% | |
| | Director | Kuan-Chun Chang | 500,000 | 5.81% | |
| | Director | Yeong-Wen Daih | 200,000 | 2.33% | |
| | Supervisor | Wei-Min Sheng | 0 | 0.00% | |

| Name | Title | Name or Representative | Shareholding | | Remarks |
|---|---|---|---|---|---|
| | | | Number of Shares | Percentage of Shareholding | |
| 3R Semiconductor Technology Inc. | Chairman of the Board and President | Hsing-Hai Chen | 10,000,000 | 100.00% | Representative of Charng Feng Investment |
| Elite Silicon Technology Inc. | Chairman of the Board | Hsing-Hai Chen | 6,031,836 | 79.37% | Representative of Charng Feng Investment |
| | Director | Ming-Chien Chang | 6,031,836 | 79.37% | Representative of Charng Feng Investment |
| | Director | Jennifer Feng | 6,031,836 | 79.37% | Representative of Charng Feng Investment |
| | Director | Chun, Li | 6,031,836 | 79.37% | Representative of Charng Feng Investment |
| | Director | Chinyi Chiang | 6,031,836 | 79.37% | Representative of Charng Feng Investment |
| | Director | Jackie Chen | 6,031,836 | 79.37% | Representative of Charng Feng Investment |
| | Supervisor | Candy Chu | 0 | 0.00% | |
| Canyon Semiconductor Inc. | Chairman of the Board | Kuan-hsi Chen | 8,350,000 | 40.93% | Representative of Charng Feng Investment |
| | Director | Ernest Shyh Yuh Lin | 10,400,000 | 50.98% | Representative of Diodes Holding B.V. (the Netherlands) |
| | Director | Sam Chen | 8,350,000 | 40.93% | Representative of Charng Feng Investment |
| | Director | Evan Yu | 10,400,000 | 50.98% | Representative of Diodes Holding B.V. (the Netherlands) |
| | Director and President | William Yang | 10,400,000 | 50.98% | Representative of Diodes Holding B.V. (the Netherlands) |
| | Supervisor | Patricia Hwang | 0 | 0% | |
| | Supervisor | Hong-Gee Wu | 0 | 0% | |
| Elite Innovation Japan Ltd. | Director | Yajima Masaharu | 200 | 100.00% | Representative of Charng Feng Investment |
| | Director | Chih-Hong Ho | 200 | 100.00% | Representative of Charng Feng Investment |
| | Director | Hong-Gee Wu | 200 | 100.00% | Representative of Charng Feng Investment |
| | Supervisor | Candy Chu | 200 | 100.00% | Representative of Charng Feng Investment |
| Eon Silicon Solutions Inc. USA | Directors | Ming-Chien Chang | 200,000 | 100.00% | Representative of Elite Semiconductor Memory Technology Inc. Representative of Elite Semiconductor Memory Technology |

| Name | Title | Name or Representative | Shareholding | | Remarks |
|---|---|---|---|---|---|
| | | | Number of Shares | Percentage of Shareholding | |
| | | | | | Inc. |
| Elite Semiconductor Memory Technology (Shenzhen) Inc. | Legal Representative | Chih-Hong Ho | - | 100.00% | Representative of Charng Feng Investment |
| Elite Semiconductor Microelectronics (Shanghai) Technology Inc. | Legal Representative | Chih-Hong Ho | - | 0% | Representative of Charng Feng Investment |

6. Operations Overview of Affiliated Companies

December 31, 2019 Unit: NT$1,000

| Name | Capital | Total Asset | Total liabilities | Net Value | Revenue | Operating Profit (Loss) | Profit (Loss) of the FY | Earnings Per Share (NT$) |
|---|---|---|---|---|---|---|---|---|
| Elite Memory | 1,000 | 124,435 | 94,256 | 30,179 | 302,330 | 21,384 | 17,395 | 173.95 |
| Charng Feng Investment | 500,000 | 394,811 | 141 | 394,670 | – | (396) | (12,167) | (0.24) |
| 1. Elite Investment Services Ltd. | 561,465 | 636,918 | – | 636,918 | – | (65) | (641) | (42,732.33) |
| 2. Elite Semiconductor (B.V.I) Ltd. | 314,058 | 27,383 | 756 | 26,627 | – | (29,597) | (29,482) | (29,481.51) |
| 3. Jie Yong Investment Ltd. | 86,000 | 549,274 | 312 | 548,962 | – | (457) | 19,868 | 2.31 |
| 3R Semiconductor | 100,000 | 22,573 | 53 | 22,520 | – | (710) | (600) | (0.06) |
| Elite Silicon Technology | 76,000 | 9,677 | 8,984 | 693 | 11,456 | (16,401) | (16,217) | (2.13) |
| Canyon Semiconductor | 204,000 | 92,688 | 11,549 | 81,139 | 21,440 | (33,860) | (33,589) | (1.65) |
| 4. Elite Innovation 5. Japan Ltd. | 4,111 | 2,823 | 744 | 2,079 | 5,347 | 136 | 22 | 112.04 |
| 6. Eon Silicon Solution Inc. USA | 3,483 | 15,818 | 16,988 | (1,170) | 65,281 | (661) | (882) | (4.41) |
| 7. Elite Semiconductor Memory Technology | 6,220 | 4,047 | 2,129 | 1,918 | 23,416 | 505 | 412 | – |

Consolidated financial statements of affiliated companies: Please refer to #page 102#.

(English Translation of a Report Originally Issued in Chinese)

Elite Semiconductor Memory Technology Inc

Declaration of Consolidated Financial Statements of Affiliated Companies

The entities that are required to be included in the consolidated financial statements of Elite Semiconductor Memory Technology Inc. for the year ended December 31, 2019 (January 1 to December 31, 2019), under the Criteria Governing the Preparation of Affiliated Enterprise 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 10, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, the Company and its Subsidiaries do not prepare a separate set of consolidated financial statements.

Hereby declared by

Company Name: Elite Semiconductor Memory Technology Inc

Person-in-charge: Hsing-Hai Chen

March 20, 2020

II. Private placement of securities for the most recent financial year until the date of the publication of the Annual Report: None.

III. Holding or disposal of shares in the Company by the Company's subsidiaries during the most recent financial year or during the current financial year up to the date of the publication of the annual report:

Unit: NT$1,000; share; %

| Name of Subsidiaries | Actual Paid-in Capital | Source of Funding | Shareholding Percentage of the Company | Date of Acquisition or Disposal | Number and Value of Shares Acquired | Number and Value of Shares Disposed | Gain (Loss) from Investment | Number and Value of Shares Held until the publication of the Annual Report | Condition of Setting the Pledges | Amount of Endorsement Made for the Subsidiaries | Amount Loaned to the Subsidiaries |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Jie Yong Investment Ltd. | 86,000 | Internally Generated Funds | 41.86% | | - | - | - | 13,439 | - | - | - |
| | | | | | - | - | | 328,048 | | | |
| | | | Current financial year up to the publication date of the Annual Report | March 26, 2020 ~ March 31, 2020 | 715 | - | - | 14,154 | - | - | - |
| | | | | | 19,894 | - | | 347,942 | | | |

IV. Other Necessary Supplements: None.

V. In the most recent financial year up the date of publication of the Annual Report, if there an issue of significant impact on shareholders' equity or securities prices as stipulated in Article 36, paragraph 2, subparagraph 2 of the securities exchange Act: None.

# Elite Semiconductor Memory Technology Inc.

Chairman of the Board: Hsing-Hai Chen

President: Ming-Chien Chang