

ESMT

Elite Semiconductor Memory Technology Inc.

2020 Annual Shareholders' Meeting

Meeting Agenda

(Traslation)

June 15, 2020

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Elite Semiconductor Memory Technology Inc.

2020 Annual Shareholders' Meeting Procedure

- I. Call the Meeting to Order
- II. Chairperson Remarks
- III. Reports
- IV. Proposals
- V. Discussions
- VI. Others and Motions
- VII. Meeting Adjourned

Elite Semiconductor Memory Technology Inc.

2020 Annual Shareholders' Meeting Agenda

Time: 9:00 a.m., June 15, 2020

Place: No. 3, Fuqun St., Xiangshan Dist., Hsinchu City 300, Taiwan, 2F, Xing Chen Hall, Hooyai Hotel

Chairperson Remarks:

I. Reports:

(1) 2019 Business Report

(2) Audit Committee's report of 2019

(3) Distribution of 2019 remuneration to employees and to Directors and Supervisors

II. Proposals:

(1) Adoption of the 2019 Business Report and Financial Statements (Proposed by the Board of Directors)

(2) Adoption of the Company's 2019 Earnings Distribution Plan (Proposed by the Board of Directors)

III. Discussions:

Amendments to the Company's Articles of Incorporation (Proposed by the Board of Directors)

IV. Others and Motions

V. Meeting Adjourned

I. Reports

Item 1: 2019 Business Report

Explanation: Please refer to Attachment I .

Item 2: Audit Committee's Report of 2019

Explanation: For the Audit Committee's review, please refer to Attachment II .

Item 3: Distribution of 2019 remuneration to employees and to Directors and Supervisors

Explanation: Pursuant to the Articles of Incorporation and based on the 2019 profitability, it is determined that the remuneration to employees is NT\$29,969,836, and remuneration to Directors/Supervisors is NT\$5,993,967.

II. Proposals

Item 1: (Proposed by the Board of Directors)

Proposal : Adoption of Year 2019 Business Report and Financial Statements

Explanation: The Company's 2019 financial statements, of which the preparation has completed, together with the Business Report and review report of the unqualified opinions issued by Ya-Hui, Cheng and Tian-I, Li from PwC, was submitted to and reviewed by the Audit Committee, by which unappropriated content was not identified. Submitted for recognition.

1. Business Report (please refer to Attachment I)
2. Financial statements (please refer to Attachment III)

Resolution:

Item 2 (Proposed by the Board of Directors)

Proposal : Adoption of the Company 2019 Earnings Distribution Plan

- Explanation:
1. The Company's 2019 earnings distribution is proposed for a cash dividend of NT\$1.0 per share.
 2. The current cash dividends are calculated pursuant to distribution ratio and rounded down to the whole dollar amounts; the fractional amounts will be saved and recorded as the Company's other income.
 3. The Chairperson is authorized to determine the cash dividend record date, payment date, and other related matters upon the approval of the profit distribution proposal at the Annual Meeting of Shareholders.
 4. In cases where the conversion of employees' share subscription into common shares affects the number of outstanding shares and subsequently affects the distribution ratio of this distribution proposal, the Chairperson is authorized to make adjustments thereto and make announcements thereof.
 5. 2019 Earnings Distribution Table is attached hereto as Attachment IV.

Resolution:

III. Discussions

Item 1(Proposed by the Board of Directors)

Proposal : Amendment to the Company's Articles of Incorporation

Explanation: 1. In order to meet the Company's operation needs, it is proposed to make partial amendments to the "Articles of Incorporation".

2. The Comparison Table for "Articles of Incorporation" Before and After Revision is attached hereto as Attachment V.

Resolution:

IV. Others and Motions

V. Meeting Adjourned

**Elite Semiconductor Memory Technology Inc.
Business Report**

Affected by factors including sluggish demand on the memory market and the decline in average selling price (ASP), the scale of the global memory market fell by 31.5% in 2019. Among them, the DRAM market plunged by 33%, and NAND Flash market plunged by 30%. According to the latest data from Gartner, a research institute, due to the sharp decline in the scale of the memory market, the overall global semiconductor market in 2019 also shrunk by 11.9%, falling to US\$418.302 billion, which is lower than the that in 2017 (US\$421.723 billion).

From the aspect of manufacturers, in 2019, the top three memory manufacturers in the world experienced a decline in revenue and percentage of sales revenue. Among them, the revenues of Samsung Electronics, SK Hynix, and Micron decreased by 29.1%, 38.0%, and 32.6%, respectively, or US\$52.214 billion (12.5%), US\$22.478 billion (5.4%) and US\$20.056 billion (4.8%), respectively.

As for DRAM, the product was affected by the sudden decline in market demand. Oversupply began to appear at the end of 2018 and continued through 2019. One of the reasons for the continued decline of DRAM ASP is related to the fact that various OEMs have cleared product inventories in the H1 of 2019. The other reason is that suppliers have lowered the prices of DRAM products due to excessive inventory.

As for NAND, the inventory level of the product began to rise at the end of 2018, and the weak demand in the terminal application market in the first half of 2019 exacerbated this situation. However, due to the power outage in the wafer factory of NAND, jointly owned by Kaixia (former Toshiba Memory) and Western Digital (WD) in July 2019, some production lines were shut down. This allowed the suppliers to clear their inventories while pulling back the already-too-low product price.

In 2020, due to the smartphone replacement trend driven by 5G network, the prospect of the industry is optimistic that it will have a positive impact on the capacity of DRAM or NAND. The launch of 5G flagship models will promote the trend of DRAM market specifications to shift to 8 ~ 12GB, and the storage capacity of NAND will also increase from 64GB in the past to 512GB or even 1TB. The industry pointed out that due to the demand for 5G mobile phones, the price of mobile DRAM will be expecting an upward growth in the first half of the year, and it is expected to grow all the way through the second half of the year. Judging from the contract price in the first quarter of 109, mobile and PC DRAM quotations were stable or a slight increase, compared with the 10% increase in server memory. At the same time, with the increase in the adoption rate of solid state drives (SSDs) and the rise of 5G mobile phones, the global NAND market will continue to show a recovery in 2020, which will boost up the market demand and prices of SLC NAND.

Driven by the multi-fold growth of TWS market demand, NOR Flash has come in the limelight. In order to support Bluetooth 5.0 and active noise reduction, each TWS must be equipped with NOR Flash to assist calculations. As major brands launch new TWS products, the number and capacity of NOR Flash mounted will be doubled, and the market size is expected to grow year by year. It is estimated that the total shipment of TWS will reach around 300 million units in 2022. In addition, AMOLED panels, TDDI chips, etc. also need to be equipped with NOR Flash. Among them, in order to provide AMOLED panel optical compensation and other needs, 4 ~ 32Mb NOR Flash is required. And in order to adjust the parameters of the TDDI chip, it also needs an external NOR Flash as an auxiliary. With the continuation of the terminal market trend, it is estimated that the penetration rate of mobile phones equipped with AMOLED panels and TDDI chips will exceed 50% by 2022. However, the recent 50/60 nanometer production capacity for NOR Flash OEM is falling short, and the production cannot be increased before Q4, 2020. Therefore, NOR Flash is expected to show a tight supply in the first half of 2020.

Looking into the future, with the clearing of high level of inventory of memory products and the ASP recovery, coupled with the expected easing of trade tensions between the US and China, the global semiconductor market will resume growth in 2020. However, the appearance of the black swan - COVID-19 has devastated the industry, and the damage is hard to be estimated.

The Company is devoted to niche memory, including niche DRAM, NOR Flash and SLC NAND. Despite the impact of the decline in memory ASP 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 easing of the Sino-US trade war, the memory market performance is expected to be prosperous. The increase in shipments and revenue growth is expected in 2020.

In terms of power IC and analog IC product lines, after years of hard work and devotion, the product line is becoming complete, and it has also been verified by major customers. Audio Amplify's market share in the TV market has gradually increased. Our products have achieved great results in the market expansion of smart speakers. Relevant revenues grew by approximately 21.8%, and the market for TVs and smart speakers is estimated to keep growing in 2020.

The Company's 2019 operating revenue was NT\$11,964,770 thousand, with a growth of 4.11% from the NT\$11,491,606 thousand in 2018. The annual gross profit rate was 14.58%, and the net profit before tax was NT\$563,433 thousand.

I. 2019 Business Result (based on individual financial statement)

1. The Comparison of Business Results from 2019 and 2018 is as Follows:

(In thousands of New Taiwan Dollars)

| | 2019 | 2018 | Increase (decrease) amount | Increase (decrease) percentage |
|--|--------------|--------------|----------------------------------|--------------------------------------|
| Operating income | 11,964,770 | 11,491,609 | 473,161 | 4.12% |
| Gross profit | 1,745,049 | 2,053,252 | (308,203) | (15.01%) |
| Operating expenses | (1,166,150) | (1,197,331) | (31,181) | (2.60%) |
| Operating profit (loss) | 578,899 | 855,921 | (277,022) | (32.37%) |
| Non-operating income (expenses) - net | (15,466) | (20,130) | (4,664) | (23.17%) |
| Income (loss) before tax | 563,433 | 835,791 | (272,358) | (32.59%) |
| Income (loss) after tax | 497,405 | 706,508 | (209,103) | (29.60%) |

2. Financial Revenue and Expenditure and Profitability Analysis

(1) Financial revenue and expenditure

(In thousands of New Taiwan Dollars)

| Items | 2019 | 2018 | Increase (decrease) amount | Increase (decrease) percentage |
|--------------------------------------|------------|------------|----------------------------------|--------------------------------------|
| Cash flow from operating activities | 1,949,621 | (615,390) | 2,565,011 | 416.81% |
| Cash flow from investment activities | (325,130) | (375,626) | 50,496 | 13.44% |
| Cash flow from financing activities | (636,422) | (166,628) | (469,794) | (281.94%) |

(2) Profitability

| Items | 2019 | 2018 |
|-----------------------------------|-----------------------|-------|
| ROA (%) | 4.85 | 7.12 |
| ROE (%) | 6.71 | 9.66 |
| Percentage of paid-in capital (%) | Operating profit | 20.26 |
| | Net profit before tax | 19.72 |
| Net profit ratio (%) | 4.16 | 6.15 |
| Earnings per share (NT\$) | 1.78 | 2.52 |

(3) R&D status: The R&D expenditure in 2019 was NT\$726,964 thousand, accounting for approximately 6.07% of operating income.

II. 2020 Business Plan

1. Business strategy

- (1) Expand the R&D team to enhance the potentials and increase relevant equipment expenditures to improve efficiency.
- (2) Expand 25nm low-density niche DRAM memory product lines such as DDR4, DDR3, LP DDR3, DDR2, LP DDR2, etc.
- (3) Accelerate the R&D of 21nm DRAM products to maintain the competitiveness of the cost structure.
- (4) Accelerate mass production of 28nm NAND products.
- (5) Accelerate the expansion of MCP (NAND + DRAM) product lines.
- (6) Expand the 50nm NOR Flash product line and business in full force.
- (7) Accelerate the development of power IC and analog IC product lines.
- (8) Maintain a stable financial structure.

2. Forecast Of Sales Quantity and Its Basis

Although the PC market continues to decline and the smartphone market is gradually becoming saturated, in order to improve the performance of such products, the memory capacity of PCs and smartphones has also increased significantly. Especially in the new era of 5G, the demand for memory (DRAM & NAND) is expected to grow substantially. In terms of NOR Flash, new applications such as TWS, AMOLED, TDDI, etc. continue to increase. Although prices began to fall since Q2, 2018, it is estimated that shipments will increase in 2020, and the revenue will slightly increase.

The global revenues of DRAM and Flash both hit record highs in 2018. This has brought a wave of positive outlooks to the niche memory market. However, in the second half of 2018, the memory boom began to deflate, and the recession cycle began to strike. The Company will strengthen its strategic partnership with customers, provide quality services, and increase customer satisfaction to pull through the difficulties in 2019. However, with the gradual improvement of the economy, it is estimated that the revenue and profit for 2020 will slightly grow.

3. Policies on Production and Marketing

- (1) Strengthen the partnership with wafer suppliers and post-production outsourcers to maintain stable production capacity and supply.
- (2) Strengthen the promotion of known good die (KGD), NOR, NAND and MCP.
- (3) Provide cost structure and quality superior to peers, and expand the market share in domestic and foreign markets.
- (4) Strengthen the interactive relationship with customers and distributors, and expand the application fields of new products to increase business sales.

III. Future Development Strategies of the Company

Global suppliers of DRAM and NAND Flash tend to consolidate and they are no longer in cut-throat price competition like the past. However, mainland China has enthusiastically supported the semiconductor industry through governmental resources in recent years, especially the DRAM and NAND memory industry, which has planted a variable to the future memory products market. The new memory Fab will be ready for mass production after 2020. By that time, the memory industry will start a new round of competition and elimination and it will also affect the niche memory market. In this general environment, building technical strengths, accelerating new product development, and continuing to reduce costs are the only ways to cope with future competition.

The application range of low-density niche memory is becoming wider and wider, and it is an indispensable electronic component for technology products. The global demand for niche memory is expected to keep growing in 2020. The Company will continue to increase new product development in response to market demand. Besides focusing on high-integration, high-speed and low-power memory IC products, known good die (KGD), NOR and NAND Flash, and MCP, the Company accelerates the R&D of analog IC, analog and digital mixed integrated circuit product lines to enhance product competitiveness to meet customer needs. The Company will actively strengthen the R&D of new products to improve its competitiveness to have a more robust foundation for the future competition, and create the greatest benefits for the Company.

IV. Impacts of the External Competition Environment, Regulatory Environment, and the Overall Business Environment

Since 2019, the financial statements of major memory companies are barely satisfactory. Overall profit performance plummeted. Controlling losses becomes a priority. Therefore, the supply capacity in 2020 was increased slowly, and the growth of demand surpassed the supply, thereby supporting the gradual increase in market prices. This strategy has become a self-evident consensus among major memory manufacturers. However, since the outbreak of COVID-19, lock-down measures in cities and towns across China have been expanded in continuation. The travel ban has blocked and challenged the laborers' resumption of work. The broader impact includes weakening overall consumer confidence. At present, the market survey institution has estimated that the sales of the Chinese smartphone market will decline significantly in 2020, at least within 10%. However, if the epidemic control is extended to Q2, this may cause a recession of nearly 20%. Although Qualcomm and MediaTek stated that they are not affected by the growth prospects of 5G mobile phones in 2020, the promotion of new products and purchasing power in the market are still under the severe threat of the spread of the epidemic.

COVID-19 has continued to spread and evolved into a global pandemic. Consumer electronics such as mobile phones and NB are the first to bear the burnt. However, the memory industry believes the market demand to be postponed, and the shortage of upstream wafer supply is

expected to be mitigated to a certain extent. However, it is clear that the upstream brand manufacturers are leading the price increase. Despite the recent progress in the resumption of work in various regions, the industry still expects the price of DRAM and NAND Flash to remain unchanged.

Therefore, although it is still unknown when the epidemic peak will end, the impact on the future overall economic situation and the fluctuations in market demand will continue. Under this situation, how to maintain the Company's operating results and ensure adequate cash flow will come to challenge the operating physiques of the major memory companies.

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, pays close attention to the development of relevant laws and regulations, and adjusts strategies to meet the needs of operations in a timely manner. In other words, the Company is able to timely grasp and respond to important domestic and foreign policy and legal changes.

Chairman: Hsing-Hai, Chen

Manager: Ming-Chien, Chang

Accounting Supervisor: Candy Chu

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 Financial 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

Attachment III CPA's Auditor Report and Financial Statements

(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.,

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

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 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 an 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

Danine Lee

Pricewaterhouse Coopers , Taiwan

March 20, 2020

(English Translation of a Report Originally Issued in Chinese)

Elite Semiconductor Memory Technology Inc.
PARENT COMPANY ONLY BALANCE SHEET
As of December 31, 2019 and 2018

(In thousands of New Taiwan Dollars)

| Assets | Note | December 31, 2019 | | December 31, 2018 | | |
|--------------------------|--|-------------------|----------------------|-------------------|----------------------|------------|
| | | Amount | % | 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 | | <u>8,346,065</u> | <u>80</u> | <u>8,013,401</u> | <u>78</u> |
| 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 | | <u>2,132,668</u> | <u>20</u> | <u>2,321,747</u> | <u>22</u> |
| 1XXX | Total assets | | <u>\$ 10,478,733</u> | <u>100</u> | <u>\$ 10,335,148</u> | <u>100</u> |

(Continue on next page)

(English Translation of a Report Originally Issued in Chinese)

Elite Semiconductor Memory Technology Inc.
PARENT COMPANY ONLY BALANCE SHEET
As of December 31, 2019 and 2018

(In thousands of New Taiwan Dollars)

| Liabilities and equity | Note | December 31, 2019 | | December 31, 2018 | | |
|--|-------------------------------------|-------------------|----------------------|-------------------|----------------------|------------|
| | | Amount | % | 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 | | <u>2,912,373</u> | <u>28</u> | <u>2,946,250</u> | <u>29</u> |
| 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 | | <u>104,900</u> | <u>1</u> | <u>33,550</u> | <u>-</u> |
| 2XXX | Total liabilities | | <u>3,017,273</u> | <u>29</u> | <u>2,979,800</u> | <u>29</u> |
| equity interests | | | | | | |
| Share capital | | | | | | |
| 3110 | Common stock | 6(16) | 2,857,589 | 27 | 2,857,589 | 28 |
| Capital surplus | | | | | | |
| 3200 | Capital surplus | 6(17) | 104,305 | 1 | 59,072 | - |
| Retained earnings | | | | | | |
| 3310 | Legal reserve | 6(18) | 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 | 6(19) | (8,524) | - | - | - |
| 3500 | Treasury stock | 6(16) | (137,321) | (1) | (137,321) | (1) |
| 3XXX | Total equity | | <u>7,461,460</u> | <u>71</u> | <u>7,355,348</u> | <u>71</u> |
| Significant contingent liabilities and unrecognized contractual commitments | | | | | | |
| Significant events after the balance sheet date | | | | | | |
| 3X2X | Total liabilities and equity | | <u>\$ 10,478,733</u> | <u>100</u> | <u>\$ 10,335,148</u> | <u>100</u> |

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.
PARENT COMPANY ONLY INCOME STATEMENT
As of December 31, 2019 and 2018

(In thousands of New Taiwan Dollars, Except Earning Per Share)

| Items | Note | 2019 | | 2018 | |
|--|-------------------|---------------------|--------------|---------------------|--------------|
| | | Amount | % | Amount | % |
| 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 | | <u>1,745,049</u> | <u>15</u> | <u>2,053,252</u> | <u>18</u> |
| 5950 Net operating gross profit | | <u>1,745,049</u> | <u>15</u> | <u>2,053,252</u> | <u>18</u> |
| 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 | | <u>(1,166,150)</u> | <u>(10)</u> | <u>(1,197,331)</u> | <u>(11)</u> |
| 6900 Operating income | | <u>578,899</u> | <u>5</u> | <u>855,921</u> | <u>7</u> |
| 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 | | <u>(15,466)</u> | <u>-</u> | <u>(20,130)</u> | <u>-</u> |
| 7900 Profit before tax | | <u>563,433</u> | <u>5</u> | <u>835,791</u> | <u>7</u> |
| 7950 Income tax expenses | 6(25) | (66,028) | (1) | (129,283) | (1) |
| 8200 Net profit of current period | | <u>\$ 497,405</u> | <u>4</u> | <u>\$ 706,508</u> | <u>6</u> |
| 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 | | <u>(\$ 7,888)</u> | <u>-</u> | <u>\$ 337</u> | <u>-</u> |
| 8500 Total comprehensive income of current period | | <u>\$ 489,517</u> | <u>4</u> | <u>\$ 706,845</u> | <u>6</u> |
| Basic earnings per share | | | | | |
| 9750 Current period net profit | | <u>\$</u> | <u>1.78</u> | <u>\$</u> | <u>2.52</u> |
| Diluted earnings per share | | | | | |
| 9850 Diluted earnings per share | | <u>\$</u> | <u>1.77</u> | <u>\$</u> | <u>2.51</u> |

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.
PARENT COMPANY ONLY of CHANGE IN EQUITY
As of years ended December 31, 2019 and 2018

(In thousands of New Taiwan Dollars)

| | Note | Retained earnings | | | | Other equities | | Treasury stock | Total equity | |
|--|-----------|---------------------|---------------------------|---------------------|-------------------|------------------------|---|----------------|-----------------------|---|
| | | 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 |
| 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 | | <u>2,857,589</u> | <u>116,645</u> | <u>1,202,067</u> | - | <u>3,238,614</u> | - | - | (137,321) | <u>7,277,594</u> |
| Net profit of current period | | - | - | - | - | 706,508 | - | - | - | 706,508 |
| Other comprehensive income (loss) | | - | - | - | - | 337 | - | - | - | 337 |
| Total comprehensive income of current period | | - | - | - | - | <u>706,845</u> | - | - | - | <u>706,845</u> |
| Distribution of cash dividends from capital surplus | 6(17)(18) | - | (68,929) | - | - | - | - | - | - | (68,929) |
| Surplus appropriation and allocation of 2017 | 6(18) | - | - | - | 194,377 | (194,377) | - | - | - | - |
| 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 | | <u>\$ 2,857,589</u> | <u>\$ 59,072</u> | <u>\$ 1,288,584</u> | <u>\$ 194,377</u> | <u>\$ 3,093,047</u> | <u>\$ -</u> | <u>\$ -</u> | <u>(\$ 137,321)</u> | <u>\$ 7,355,348</u> |
| 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 | | - | - | - | - | <u>498,041</u> | <u>(8,524)</u> | - | - | <u>489,517</u> |
| Annual appropriation of net income and allocation of the year 2018 | 6(18) | - | - | 70,651 | - | (70,651) | - | - | - | - |
| 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 | | <u>\$ 2,857,589</u> | <u>\$ 104,305</u> | <u>\$ 1,359,235</u> | <u>\$ -</u> | <u>\$ 3,286,176</u> | <u>(\$ 8,524)</u> | <u>\$ -</u> | <u>(\$ 137,321)</u> | <u>\$ 7,461,460</u> |

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.
PARENT COMPANY ONLY STATEMENT OF CASH FLOWS
As of years ended December 31, 2019 and 2018

(In thousands of New Taiwan Dollar)

| | Note | For the year ended December 31, 2019 | For the year ended December 31, 2018 |
|---|----------------|---|---|
| <u>Cash flow from operating activities</u> | | | |
| 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.
PARENT COMPANY ONLY STATEMENT OF CASH FLOWS

As of years ended December 31, 2019 and 2018

(In thousands of New Taiwan Dollar)

| | Note | For the year ended December 31, 2019 | For the year ended December 31, 2018 |
|--|-------|---|---|
| <u>Cash flow from investing activities</u> | | | |
| 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) |
| <u>Cash flow from financing activities</u> | | | |
| 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

(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. ,

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 an 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 manner 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
Danine 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

(In thousands of New Taiwan Dollar)

| Assets | Note | December 31, 2019 | | December 31, 2018 | | |
|--------------------------|--------------------------------------|-------------------|----------------------|-------------------|----------------------|------------|
| | | Amount | % | Amount | % | |
| Current assets | | | | | | |
| 1100 | Cash and cash equivalents | 6(1) | \$ 2,757,003 | 26 | \$ 1,873,828 | 18 |
| 1110 | Financial assets at fair value | 6(2) | | | | |
| | through profit or loss - current | | 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 | | <u>9,497,077</u> | <u>91</u> | <u>9,206,455</u> | <u>89</u> |
| Noncurrent assets | | | | | | |
| 1517 | Financial assets at fair value | 6(3) | | | | |
| | through other comprehensive | | | | | |
| | income - noncurrent | | 50,776 | - | 59,300 | 1 |
| 1550 | Investments accounted for using | 6(6) | | | | |
| | equity method | | 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 | | <u>983,243</u> | <u>9</u> | <u>1,082,857</u> | <u>11</u> |
| 1XXX | Total assets | | <u>\$ 10,480,320</u> | <u>100</u> | <u>\$ 10,289,312</u> | <u>100</u> |

(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

(In thousands of New Taiwan Dollar)

| Liabilities and equity | Note | December 31, 2019 | | December 31, 2018 | | |
|--|--|-------------------|----------------------|-------------------|----------------------|------------|
| | | Amount | % | 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 | | <u>3,025,945</u> | <u>29</u> | <u>3,011,680</u> | <u>29</u> |
| 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 | | <u>113,596</u> | <u>1</u> | <u>33,194</u> | <u>1</u> |
| 2XXX | Total liabilities | | <u>3,139,541</u> | <u>30</u> | <u>3,044,874</u> | <u>30</u> |
| Equity attributable to owners of the parent company | | | | | | |
| Share capital | | | | | | |
| 3110 | Common stock | 6(16) | 2,857,589 | 27 | 2,857,589 | 28 |
| Capital surplus | | | | | | |
| 3200 | Capital surplus | 6(17) | 104,305 | 1 | 59,072 | - |
| Retained earnings | | | | | | |
| 3310 | Legal reserve | 6(18) | 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 | | <u>7,461,460</u> | <u>71</u> | <u>7,355,348</u> | <u>71</u> |
| 36XX | Non-controlling interests | | (120,681) | (1) | (110,910) | (1) |
| 3XXX | Total equity | | <u>7,340,779</u> | <u>70</u> | <u>7,244,438</u> | <u>70</u> |
| Significant contingent liabilities and unrecognized contractual commitments | | | | | | |
| Significant events after the balance sheet date | | | | | | |
| 3X2X | Total liabilities and equity | | <u>\$ 10,480,320</u> | <u>100</u> | <u>\$ 10,289,312</u> | <u>100</u> |

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

(In thousands of New Taiwan Dollars, Except Earnings Per Share)

| Items | Note | 2019 | | 2018 | |
|---|----------|---------------------|--------------|---------------------|--------------|
| | | Amount | % | Amount | % |
| 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 | | <u>1,802,208</u> | <u>15</u> | <u>2,128,927</u> | <u>18</u> |
| 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 | | <u>(1,227,265)</u> | <u>(10)</u> | <u>(1,322,512)</u> | <u>(11)</u> |
| 6900 Operating income | | <u>574,943</u> | <u>5</u> | <u>806,415</u> | <u>7</u> |
| 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 | | <u>1,237</u> | <u>-</u> | <u>41,845</u> | <u>-</u> |
| 7900 Profit before tax | | <u>576,180</u> | <u>5</u> | <u>848,260</u> | <u>7</u> |
| 7950 Income tax expenses | 6(25) | (70,569) | (1) | (132,066) | (1) |
| 8200 Net profit of current period | | <u>\$ 505,611</u> | <u>4</u> | <u>\$ 716,194</u> | <u>6</u> |
| 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 | | <u>(\$ 7,888)</u> | <u>-</u> | <u>\$ 337</u> | <u>-</u> |
| 8500 Total comprehensive income of current period | | <u>\$ 497,723</u> | <u>4</u> | <u>\$ 716,531</u> | <u>6</u> |
| Net profit (loss) attributable to: | | | | | |
| 8610 Owners of the parent company | | <u>\$ 497,405</u> | <u>4</u> | <u>\$ 706,508</u> | <u>6</u> |
| 8620 Non-controlling interests | | <u>\$ 8,206</u> | <u>-</u> | <u>\$ 9,686</u> | <u>-</u> |
| Total comprehensive income attributable to: | | | | | |
| 8710 Owners of the parent company | | <u>\$ 489,517</u> | <u>4</u> | <u>\$ 706,845</u> | <u>6</u> |
| 8720 Non-controlling interests | | <u>\$ 8,206</u> | <u>-</u> | <u>\$ 9,686</u> | <u>-</u> |
| Earnings per share | 6(26) | | | | |
| 9750 Basic earnings per share | | <u>\$</u> | <u>1.78</u> | <u>\$</u> | <u>2.52</u> |
| 9850 Diluted earnings per share | | <u>\$</u> | <u>1.77</u> | <u>\$</u> | <u>2.51</u> |

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

(In thousands of New Taiwan Dollar)

| Equity attributable to owners of the parent company | | | | | | | | | | | | |
|---|-------------------|---------------------|-------------------|---------------------|------------------------|---|---|------------------|---------------------|---------------------------|---------------------|---------------------|
| Note | Retained earnings | | | | | Other equities | | | Total | Non-controlling interests | Total equity | |
| | 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 | Profit or loss | | | | Treasury stock |
| 2018 | | | | | | | | | | | | |
| | | \$ 2,857,589 | \$ 116,645 | \$ 1,202,067 | \$ - | \$ 3,432,991 | \$ - | (\$ 194,377) | (\$ 137,321) | \$ 7,277,594 | (\$ 107,453) | \$ 7,170,141 |
| | | - | - | - | - | (194,377) | - | 194,377 | - | - | - | - |
| | | <u>2,857,589</u> | <u>116,645</u> | <u>1,202,067</u> | <u>-</u> | <u>3,238,614</u> | <u>-</u> | <u>(137,321)</u> | <u>7,277,594</u> | <u>(107,453)</u> | <u>7,170,141</u> | |
| | | - | - | - | - | 706,508 | - | - | 706,508 | 9,686 | 716,194 | |
| | | - | - | - | - | 337 | - | - | 337 | - | 337 | |
| | | - | - | - | - | 706,845 | - | - | 706,845 | 9,686 | 716,531 | |
| | 6(17)(18) | - | (68,929) | - | - | - | - | - | (68,929) | - | (68,929) | |
| | 6(18) | - | - | - | 194,377 | (194,377) | - | - | - | - | - | |
| | | - | - | 86,517 | - | (86,517) | - | - | - | - | - | |
| | | - | - | - | - | (571,518) | - | - | (571,518) | - | (571,518) | |
| | 6(17) | - | 1,146 | - | - | - | - | - | 1,146 | (9,922) | (8,776) | |
| | 6(17) | - | (69) | - | - | - | - | - | (69) | (9,338) | (9,407) | |
| | 6(17)(27) | - | (6,117) | - | - | - | - | - | (6,117) | 6,117 | - | |
| | 6(17) | - | 12,608 | - | - | - | - | - | 12,608 | - | 12,608 | |
| | 6(17) | - | 3,788 | - | - | - | - | - | 3,788 | - | 3,788 | |
| | | <u>\$ 2,857,589</u> | <u>\$ 59,072</u> | <u>\$ 1,288,584</u> | <u>\$ 194,377</u> | <u>\$ 3,093,047</u> | <u>\$ -</u> | <u>\$ -</u> | <u>(\$ 137,321)</u> | <u>\$ 7,355,348</u> | <u>(\$ 110,910)</u> | <u>\$ 7,244,438</u> |
| 2019 | | | | | | | | | | | | |
| | | \$ 2,857,589 | \$ 59,072 | \$ 1,288,584 | \$ 194,377 | \$ 3,093,047 | \$ - | \$ - | (\$ 137,321) | \$ 7,355,348 | (\$ 110,910) | \$ 7,244,438 |
| | | - | - | - | - | 497,405 | - | - | 497,405 | 8,206 | 505,611 | |
| | | - | - | - | - | 636 | (8,524) | - | (7,888) | - | (7,888) | |
| | | - | - | - | - | 498,041 | (8,524) | - | 489,517 | 8,206 | 497,723 | |
| | 6(18) | - | - | 70,651 | - | (70,651) | - | - | - | - | - | |
| | | - | - | - | - | (428,638) | - | - | (428,638) | - | (428,638) | |
| | | - | - | - | (194,377) | 194,377 | - | - | - | - | - | |
| | 6(17) | - | 1,146 | - | - | - | - | - | 1,146 | (15,444) | (14,298) | |
| | 6(17) | - | 35,475 | - | - | - | - | - | 35,475 | (2,533) | 32,942 | |
| | 6(17) | - | 8,438 | - | - | - | - | - | 8,438 | - | 8,438 | |
| | 6(17) | - | 180 | - | - | - | - | - | 180 | - | 180 | |
| | 6(17) | - | 39 | - | - | - | - | - | 39 | - | 39 | |
| | 6(17) | - | (45) | - | - | - | - | - | (45) | - | (45) | |
| | | <u>\$ 2,857,589</u> | <u>\$ 104,305</u> | <u>\$ 1,359,235</u> | <u>\$ -</u> | <u>\$ 3,286,176</u> | <u>(\$ 8,524)</u> | <u>\$ -</u> | <u>(\$ 137,321)</u> | <u>\$ 7,461,460</u> | <u>(\$ 120,681)</u> | <u>\$ 7,340,779</u> |

The accompanying notes are an integral part of these consolidated financial statements.
Chen Manager: Ming-Chien Chang

Chairman: Hsing-Hai

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

(In thousands of New Taiwan Dollar)

| | Note | January 1 to December 31, 2019 | January 1 to December 31, 2018 |
|--|----------------|-----------------------------------|-----------------------------------|
| <u>Cash flow from operating activities</u> | | | |
| 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 | | <u>1,849,420</u> | <u>(596,909)</u> |

(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

(In thousands of New Taiwan Dollar)

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

Elite Semiconductor Memory Technology Inc. 2019 Earnings Distribution Table

Unit: NT\$

| Items | Amount | Remarks |
|---|----------------|-------------------|
| I. Earnings available for distribution | | |
| 1. Undistributed earnings of previous year | 2,788,134,707 | |
| 2. Actual gain on defined benefit plan | 636,462 | |
| 3. Add: Net income of 2019 | 497,405,300 | |
| 4. Less: Appropriated for Legal Reserve | (49,804,176) | |
| 5. Less: Appropriated for Special Reserve | (8,524,134) | |
| Total | 3,227,848,159 | |
| II. Distribution item: | | |
| 1. Cash Dividend to Shareholders | (285,758,925) | NT\$1.0 per share |
| III. Unappropriated retained earnings transferred to the following year | 2,942,089,234 | |

Note 1: 2019 cash dividend was NT\$1.0 per share.

(The dividend payout ratio is calculated based on the total outstanding shares of 285,758,925 shares as of March 19, 2020.)

Elite Semiconductor Memory Technology Inc.
Comparison Table for “Articles of Incorporation” Before and After Revision

| Articles | Articles before Amendments | Articles after Amendments | Description |
|------------|--|--|--|
| Article 1 | The Corporation shall be incorporated as a company limited by shares under the Company Law of the Republic of China, and its name shall be 晶豪科技股份有限公司 in the Chinese language, and ELITE SEMICONDUCTOR MEMORY TECHNOLOGY INC. in the English language. | The Corporation shall be incorporated as a company limited by shares under the Company Law of the Republic of China, and its name shall be 晶豪科技股份有限公司 in the Chinese language, and <u>ELITE SEMICONDUCTOR MICROELECTRONICS TECHNOLOGY INC.</u> in the English language. | Amended in accordance with the operation needs of the Company. |
| Article 26 | The Articles of Incorporation was instituted on May 20, 1998. The first amendment was made on May 28, 1999. The second amendment was made on Feb. 25, 2000. The third amendment was made on Mar 31, 2000. The fourth amendment was made on Jun. 18, 2001. The fifth amendment was made on Jun. 19, 2002. The sixth amendment was made on Feb. 18, 2003. The seventh amendment was made on Jun. 6, 2003. The eighth amendment was made on Jun. 25, 2004. The ninth amendment was made on Jun. 13, 2005. The tenth amendment was made on Jun. 23, 2006. The 11th amendment was made on Jun. 15, 2007. The 12th amendment was made on Jun. 13, 2008. The 13th amendment was made on Jun. 18, 2010. The 14th amendment was made on Jun. 15, 2017. The 15th amendment was made on Jun. 15, 2012. The 16th amendment was made on Jun. 11, 2013. The 17th amendment was made on Jun. 2, 2015. The 18th amendment was made on Jun. 14, 2018. The 19th amendment was made on Jun. 13, 2019. | The Articles of Incorporation was instituted on May 20, 1998. The first amendment was made on May 28, 1999. The second amendment was made on Feb. 25, 2000. The third amendment was made on Mar 31, 2000. The fourth amendment was made on Jun. 18, 2001. The fifth amendment was made on Jun. 19, 2002. The sixth amendment was made on Feb. 18, 2003. The seventh amendment was made on Jun. 6, 2003. The eighth amendment was made on Jun. 25, 2004. The ninth amendment was made on Jun. 13, 2005. The tenth amendment was made on Jun. 23, 2006. The 11th amendment was made on Jun. 15, 2007. The 12th amendment was made on Jun. 13, 2008. The 13th amendment was made on Jun. 18, 2010. The 14th amendment was made on Jun. 15, 2017. The 15th amendment was made on Jun. 15, 2012. The 16th amendment was made on Jun. 11, 2013. The 17th amendment was made on Jun. 2, 2015. The 18th amendment was made on Jun. 14, 2018. The 19th amendment was made on Jun. 13, 2019. The 20th amendment was made on Jun. 15, 2020. | Added the date of amendment |

Elite Semiconductor Memory Technology Inc. Rules and Procedure of Shareholders' Meetings

Approved at the Annual Shareholders' Meeting on Jun. 2, 2015

- Article 1. Unless otherwise provided by laws or regulations, the Company's shareholders' meetings shall be regulated according to the Rules.
- Article 2. The attending shareholders shall be furnished with an attendance book to sign, or attending shareholders may hand in a sign-in card in lieu of signing in. The number of shares in attendance shall be calculated according to the shares indicated by the attendance book and sign-in cards handed in.
- Article 3. Attendance and voting at a shareholders' meeting shall be calculated based the number of shares.
- Article 4. The venue for the Company's shareholders' meeting shall be the premises of the Company, or a place accessible to shareholders and suitable for a shareholders' meeting. The meeting may begin no earlier than 9 a.m. and no later than 3 p.m.
- Article 5. If a shareholders' meeting is convened by the Board of Directors, the meeting shall be chaired by the Chairperson of the Board. When the Chairperson of the Board is on leave or for any reason unable to exercise the powers of the Chairperson, the Vice-Chairperson shall act in place of the Chairperson; if there is no Vice-Chairperson or the Vice-Chairperson is also on leave or for any reason unable to exercise the powers of the Vice-Chairperson, the Chairperson shall appoint one of the Managing Directors to act as chair. If there are no Managing Directors, one of the Directors shall be appointed to act as chair. Where the Chairperson does not make such a designation, the Managing Directors or the Directors shall select from among themselves one person to serve as chair.
- If a shareholders' meeting is convened by a party with powers to convene but other than the Board of Directors, the convening party shall chair the meeting.
- Article 6. The Company may appoint its attorneys, certified public accountants, or related persons retained by it to attend a shareholders' meeting in a non-voting capacity.
- Staff handling administrative affairs of a shareholders' meeting shall wear identification cards or arm bands.
- Article 7. The Company shall make an uninterrupted audio or video recording of the meeting and the recorded materials shall be retained for at least 1 year.
- Article 8. The chair shall call the meeting to order at the appointed meeting time. However, when the attending shareholders do not represent a majority of the total number of issued shares, the chair may announce a postponement, provided that no more than two such postponements,

for a combined total of no more than one hour, may be made. If the quorum is not met after two postponements as referred to in the preceding paragraph, but the attending shareholders represent one third or more of the total number of issued shares, a tentative resolution may be adopted pursuant to Article 175, paragraph 1 of the Company Act.

When, prior to the conclusion of the meeting, the attending shareholders represent a majority of the total number of issued shares, the chair may resubmit the tentative resolution for a vote by the shareholders' meeting pursuant to Article 174 of the Company Act.

Article 9. If a shareholders' meeting is convened by the board of Directors, the meeting agenda shall be set by the board of Directors. The meeting shall proceed in the order set by the agenda, which may not be changed without a resolution of the shareholders meeting.

The provisions of the preceding paragraph apply *mutatis mutandis* to a shareholders' meeting convened by a party with the power to convene that is not the board of Directors.

The chair may not declare the meeting adjourned prior to completion of deliberation on the meeting agenda (including extempore motions) mentioned in the preceding two paragraphs, except by a resolution of the shareholders' meeting. If the chair declares the meeting adjourned in violation of the rules of procedure, a new chair shall be promptly elected by agreement of a majority of the votes represented by the attending shareholders, and then continue the meeting. After the meeting is adjourned, shareholders shall not elect another Chairperson to continue the meeting at the same place or at any other place.

Article 10. Before speaking, an attending shareholder must specify on a speaker's slip the subject of the speech, his/her shareholder account number (or attendance card number), and account name. The order in which shareholders speak will be set by the chair.

A shareholder in attendance who has submitted a speaker's slip but does not actually speak shall be deemed to have not spoken. When the content of the speech does not correspond to the subject given on the speaker's slip, the spoken content shall prevail.

When an attending shareholder is speaking, other shareholders may not speak or interrupt unless they have sought and obtained the consent of the chair and the shareholder that has the floor; the chair shall stop any violation.

Article 11. Except with the consent of the chair, a shareholder may not speak more than twice on the same motion, and a single speech may not exceed five minutes.

If the shareholder's speech violates the rules in the preceding paragraph or exceeds the scope of the agenda item, the chair may terminate the speech.

Article 12. When a juristic person is appointed to attend as a proxy, the juristic person may designate only one person to represent him/her in the meeting. When a juristic person shareholder appoints two or more representatives to attend a shareholders' meeting, one of the

representatives so appointed may speak on the same motion.

- Article 13. After an attending shareholder has spoken, the chair may respond in person or direct relevant personnel to respond.
- Article 14. When the Chairperson assumes the opinion that the discussion for a motion has been discussed sufficiently to put it to a resolution, the chair may announce discontinuance of the discussion and call for resolution.
- Article 15. Vote monitoring and counting personnel for the voting on a motion shall be appointed by the chair, provided that all monitoring personnel shall be shareholders of the Company. The results of the resolution(s) shall be announced in the meeting and recorded in the meeting minutes.
- Article 16. During a meeting, the Chairperson may announce for a break based on time considerations.
- Article 17. Except as otherwise provided in the Company Act or in the Company's Articles of Incorporation, the resolution of a motion shall require the vote of a majority of the voting rights represented by the attending shareholders.
- When the Company holds a shareholders' meeting, it may allow the shareholders to exercise voting rights by correspondence or electronic means, and method of execution and the declaration of intent thereof shall be handled in accordance with Article 177-1 and 177-2 of the Company Act. At the time of a vote, the chair or a person designated by the chair shall first announce the total number of voting rights represented by the attending shareholders, followed by a poll of the shareholders. After the conclusion of the meeting, on the same day it is held, the results for each proposal shall be updated to the MOPS.
- Article 18. If there shall be an amendment or alternative to a motion, the Chairperson may combine the amendment or alternative into the original motion, and determine their orders for resolution.
- When any one among them is passed, the other proposals will then be deemed rejected, and no further voting shall be required.
- Article 19. The chair may direct the proctors (or security personnel) to help maintain order at the meeting place. When proctors (or security personnel) help maintain order at the meeting place, they shall wear an armband that reads "Proctor".
- Article 20. Any matters that are not addressed in the Rules shall be governed by the Articles of Incorporation.
- Article 21. The Rules, and any amendments hereto, shall be implemented after adoption at the shareholders' meetings.

Appendix II

Elite Semiconductor Memory Technology Inc. Articles of Incorporation

Approved at the Annual Shareholders' Meeting on Jun. 13, 2019

Chapter 1. General Provision

- Article 1. The Corporation shall be incorporated as a company limited by shares under the Company Law of the Republic of China, and its name shall be 晶豪科技股份有限公司 in the Chinese language, and ELITE SEMICONDUCTOR MEMORY TECHNOLOGY INC. in the English language.
- Article 2. The Company is engaged in the following business:
- (I) CC01080 Electronic Parts and Components Manufacturing
 - (II) I301010 Software Design Services
 - (III) F401030 Manufacture Export
- The Company is engaged in the research, development, production, manufacture, and sales of the following products:
- 1. DRAM manufactured under 0.21 micron (incl.) process and all SRAM and Flash Memory manufactured under 0.25 micron (incl.) process.
 - 2. Analog integrated circuit
 - 3. Analog and digital mixed integrated circuit
 - 4. Technical services related to product design and R&D related to the Company's business.
 - 5. Import and export trade business related to the Company's business.
- Article 3. The Company may act as a guarantor for others due to business requirements.
- Article 4. The total amount of the Company's reinvestment shall not be subject to the restriction of not more than forty percent of the Company's paid-up capital as provided in Article 13 of the Company Act. Any matters regarding the reinvestment shall be resolved in accordance with the resolutions of the Board of Directors.
- Article 5. The Company shall be based in Hsinchu Science Park and shall be free, upon resolution of the Board of Directors and approval of competent authority, to set up branches or offices at various locations within and without the territory of ROC.
- Article 6. The Company shall make public announcements in accordance with Article 28 of the Company Act.

Chapter 2. Shares

- Article 7. The capital sum of the Company is NT\$3,500,000,000 to be divided for 350,000,000 shares at par value of NT\$10 per share. For shares not yet issued are to be issued in tranches by the Board under authorization in installments. 20,000,000 shares are reserved for the subscription of subscription warrants, preference shares with subscription warrants,

or corporate bonds with warrants.

The Company's bough-back treasury shares are assigned or transferred to subsidiary company employees who fulfill specific requirements.

The Company's share subscription warrants are entitled to employees, who meet specific requirements, of subordinate companies.

When the Company issues new share, the obtaining of new shares is entitled to subsidiary company employees meeting specific requirements.

The Company's restricted stocks are entitled to subsidiary company employees meeting specific requirements.

Article 8. The Company issues registered shares and each stock certificate shall be duly certified or authenticated in accordance with the law before issuance thereof. A company may issue shares without printed certificates. However, those shares shall be registered with Taiwan Depository & Clearing Corp., or the company may in a new issue prepare a printed consolidated certificate representing the total number of shares of that issue.

Article 8-1. The shares issued by the Company may be merged and reissued in large denominations at the request of Taiwan Depository & Clearing Corp.

Article 9. The rename for transfer of shares shall be suspended by 60 days before an annual shareholders' meeting, or 30 days before a temporary shareholders' meeting, or five days before the Company decides to distribute stock dividends or other interests.

Chapter 3. Shareholders' Meetings

Article 10. Shareholders' meetings are of two kinds: (1) annual meetings and (2) special meetings. Annual meetings will be convened by the Board in accordance with the law once a year within six months after the close of each fiscal year. Special meetings will be called for at any time under law as necessary.

Article 11. Shareholders who are unable to attend the shareholders' meetings in person may appoint a proxy to attend the meeting by providing a signed and sealed proxy form issued by the Company stating the scope of the proxy's authorization. The attendance of shareholders shall be handled not only in accordance with Article 177 of the Company Act but also the provisions in "Regulations Governing the Use of Proxies for Attendance at Shareholder Meetings of Public Companies" stipulated by competent authorities.

Article 12. A shareholder shall have one voting right in respect of each share in his/her possession.

Article 13. At a shareholders' meeting, the meeting shall be presided over by the Chairperson of the Board of Directors. Under circumstances where the Chairperson is unable to perform his/her duty for any reason, the meetings shall be presided over in accordance with Paragraph 3, Article 208 of the Company Act. If the shareholders' meetings are convened by a party with power to convene but other than the Board of Directors, the convening party shall chair the meeting. When there are two or more such convening parties, they shall mutually select a chair from among themselves.

Article 13-1. Matters relating to the resolutions of a shareholders' meeting shall be recorded in the

meeting minutes. The meeting minutes shall be signed or sealed by the chair of the meeting and a copy distributed to each shareholder within 20 days after the conclusion of the meeting. The aforementioned meeting minutes may be distributed and announced.

Article 14. Except otherwise regulated by the Company Act, a shareholders' meeting resolution is passed when more than 50% of all outstanding shares are represented in the meeting and voted in favor by more than 50% of all voting rights represented at the meeting.

Chapter 4. Directors and Supervisors

Article 15. The Board of Directors of the Company shall appoint seven to nine Directors with a three-year term by means of a candidate nomination system, and the shareholders shall elect Directors from among the nominees and Directors may be re-elected after the term. Amongst the Directors' number mentioned above, there shall be no fewer than three independent Directors and they must not represent less than one-fifth of the Board. Independent Directors and Non-Independent Directors shall be elected at the same time and the quota shall be calculated separately.

The Company may purchase liability insurance policies to insure itself against liabilities that arise due to operational decisions made by Directors during their terms of service.

Article 15-1. The Company has set up an Audit Committee pursuant to Article 14-4 of the Securities and Exchange Act. The Audit Committee consists of all Independent Directors. The duties and other related matters of the Audit Committee shall be performed as stipulated by the Company Act, Securities and Exchange Act, and other regulations.

Article 15-2. In calling a meeting of the Board of Directors, a notice stating the cause of the meeting shall be given to each Director no later than seven days prior to the scheduled meeting date. Under emergent circumstances, however, a meeting may be called for on shorter notice.

The Company Board meeting advices may be delivered via written documents, fax or email.

Article 16. The Board shall be organized by Directors. The Board shall elect a Chairperson from among the Directors by a majority vote at a meeting attended by over two-thirds of the Directors. The Chairperson shall represent the Company externally.

Article 17. In case the Chairperson is on leave or absent or cannot exercise his/her power and authority for any cause, the designation of a person acting on the Chairperson's behalf shall be conducted in accordance with Article 208 of the Company Act.

Article 18. Unless otherwise regulated by the Company Act, the Board's resolutions are passed only if more than half of the Board members are present in a meeting, and with more than half of attending Directors voting in favor. In case a Director is unable to attend the Board Meeting in person, he/she may appoint another Director to attend the meeting on his/her behalf; he/she shall issue a written proxy and state therein the scope of authority with reference to the subjects to be discussed at the meeting. A Director may accept the appointment to act as the proxy of one other Director only. If a Board Meeting is

convened by way of a video conference, those who participate in the meeting using video conferencing are considered to have attended the meeting in person.

Article 19. Any significant matters regarding the Company's operation and policies, other than those which shall be bylaw or approved by resolution at a shareholders' meeting, shall be approved by resolution at a Board meeting.

Article 19-1. The Board of Directors shall be authorized to determine the remuneration to the Company's Directors based on the standard generally adhered to by other firms of the same trade.

Article 20. Deleted

Chapter 5. Managerial Personnel

Article 21. The Company shall have a President and several Vice Presidents. The appointment, discharge and the remuneration shall be done in accordance with Article 29 of the Company Act.

Chapter 6. Accounting

Article 22. The fiscal year of the Company shall start from January 1 to December 31, and the Company makes final accounts at the end of each fiscal year.

Article 23. The Board of Directors shall prepare the following statements at the end of each accounting period and submitted them to the annual shareholders' meeting for ratification.

(I) Business Report

(II) Financial Statements

(III) Proposal Concerning Earnings Distribution or Recovery of Losses

Article 24. The Company's annual profit, if any, shall be distributed in the following order:

(I) Pay taxes

(II) Set off deficits

(III) Appropriate 10% as legal reserve

(IV) Appropriate for special reserve if necessary

(V) 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.

The Company is still at the growth stage of the industry life cycle. If more than 5% of the total surplus is determined to be distributed as dividends, it shall be distributed by cash and the remaining shall be distributed by shares.

Article 24-1. 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, profits must first be taken to offset against cumulative losses if any. The remuneration shall be distributed, in stock 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 preceding paragraph means earnings before tax, employee compensation, and remuneration to Directors.

The distribution of remuneration to employees and Directors shall be determined by a majority of the Directors at a meeting attended by two-thirds or more of the total number of Directors and then reported to the Shareholders' Meeting.

Chapter 7. Supplementary Provisions

Article 25. Any matters that are not addressed in the Articles of Incorporation shall be governed by the Company Act and relevant laws and regulations.

Article 26. The Articles of Incorporation was instituted on May 20, 1998. The first amendment was made on May 28, 1999. The second amendment was made on Feb. 25, 2000. The third amendment was made on Mar 31, 2000. The fourth amendment was made on Jun. 18, 2001. The fifth amendment was made on Jun. 19, 2002. The sixth amendment was made on Feb. 18, 2003. The seventh amendment was made on Jun. 6, 2003. The eighth amendment was made on Jun. 25, 2004. The ninth amendment was made on Jun. 13, 2005. The tenth amendment was made on Jun. 23, 2006. The 11th amendment was made on Jun. 15, 2007. The 12th amendment was made on Jun. 13, 2008. The 13th amendment was made on Jun. 18, 2010. The 14th amendment was made on Jun. 15, 2017. The 15th amendment was made on Jun. 15, 2012. The 16th amendment was made on Jun. 11, 2013. The 17th amendment was made on Jun. 2, 2015. The 18th amendment was made on Jun. 14, 2018. The 19th amendment was made on Jun. 13, 2019.

Elite Semiconductor Memory Technology Inc.

Shareholdings of All Directors

- I. As of the book closure date for the 2020 AGM, the issued shares were 285,758,925.
- II. The statutory number of shares held by the Directors of the Company is 12,000,000 shares.
- III. The Company has established Audit Committee, and the minimum shareholding requirement for supervisors do not apply.
- IV. As of the book closure date for the 2020 AGM, the shareholding of individual director and all directors recorded in the shareholders' register is as follows, which comply with the percentage as stipulated in Article 26 of the Securities and Exchange Act.

As of April 17, 2020

| Position | Name | Shares | Shareholding ratio |
|--------------------------------|---|------------|--------------------|
| Chairman | Hsing-Hai, Chen | 8,411,629 | 2.94% |
| Director | Ming-Chien, Chang | 5,523,825 | 1.93% |
| Director | Chih-Hong, Ho | 628,172 | 0.22% |
| Director | Yeong-Wen, Daih | 581,205 | 0.20% |
| Director | Shin Xin Investment Co., Ltd. Rep.: Chia-Neng, Huang | 255,000 | 0.08% |
| Independent Director | Shan-Jen, Chow | - | - |
| Independent Director | Tsin-Fu Jiang | - | - |
| Independent Director | Cheng-Yan Chien | - | - |
| Shareholdings of All Directors | | 15,399,831 | 5.39% |

Appendix IV

Information on the proposals by shareholders holding one percent or more of the total number of issued shares

- I. Pursuant to Article 172-1 of the Company Act, a shareholder holding one percent or more of the total number of issued shares may submit to the Company a written proposal for discussion at the 2020 Annual Shareholders' Meeting. The submission period is from April 13, 2020, to April 23, 2020.
- II. Proposals by shareholders holding one percent or more of the total number of issued shares at the 2020 Annual Shareholders' Meeting: None.